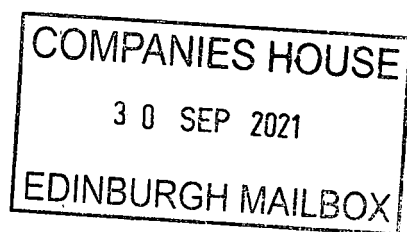


Group Strategic Report, Report of the Directors and
Consolidated Financial Statements for the Year Ended 31 December 2020
for
Zennor Petroleum Limited —

NOW KNOWN AS NEO ENERGY (ZPL) LIMITED



Zennor Petroleum Limited

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for the Year Ended 31 December 2020**

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Zennor Petroleum Limited

Company Information
for the Year Ended 31 December 2020

DIRECTORS:

M J Rowe
R I S Crawford
J M R Henry
J A M Cheng
Dr A J Parsley
T Kumar
N Simakina

REGISTERED OFFICE:

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AUDITOR:

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EC4A 3TR

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E14 5HP

REGISTERED NUMBER:

08818762 (England and Wales)

Zennor Petroleum Limited

Group Strategic Report **for the Year Ended 31 December 2020**

Zennor Petroleum Limited ("the Company") and its subsidiaries (together referred to as "the Group") is an independent UK upstream oil and gas business. The Group is owned and financed by a private equity fund, Kerogen Energy Fund II, managed by Kerogen Capital. The directors present below their Strategic Report of the Company and the Group, which should be read in conjunction with the consolidated financial statements for the year ended 31 December 2020.

FUTURE CHANGE OF OWNERSHIP

On 8 March 2021 Kerogen Capital signed an agreement to sell the entire Group to NEO Energy Upstream UK Limited ("NEO"), a growing UK oil company backed by the Norwegian investment firm HitecVision AS. This transaction has an effective date of 1 January 2021 and received regulatory consent in June 2021. The Group's staff will be integrated into the NEO business upon transaction completion which is expected in Q3 2021.

REVIEW OF BUSINESS

Over the last five years the Group has built a diversified high-quality portfolio of long life and low-cost producing fields, development projects, appraisal assets and exploration prospects. The Group is seeking to create a portfolio with net production of 10,000 boepd, combined proven and probable reserves and contingent resources of 100 mmboc and prospective resources of a further 200 mmboc.

The business had a difficult year in 2020 with a significant decline in oil market prices largely due to the global COVID-19 pandemic. With the oil price averaging only \$41/bbl (2019: \$64/bbl) and gas 25p/therm (2019: 35p/therm), Zennor Group turnover decreased to \$55.7m (2019: \$60.8m) resulting in an operating loss of \$2.5m (2019: profit \$18.4m). Operating profits before depreciation, amortisation, finance costs and impairments were \$14.4m (2019: \$36.2m). However, by the year-end the oil price had recovered to \$50/bbl and the gas price to 48p/therm. Since the balance sheet date oil and gas prices have risen further; on 31 May 2021 the oil price was at \$70/bbl and the UK gas price over 60p/therm. While the sales price outlook for 2021 is positive, turnover will be negatively impacted by the loss of one month's production during the rescheduled (see below) triannual shutdown of the Forties Pipeline System (FPS) and all linked fields in June 2021.

The Group's main project is the 100% owned and operated Finlaggan field development located in the UK Central North Sea. This development is targeting 26 mmboc of gas condensate reserves from two subsea production wells tied-back 20km to the Britannia platform. As previously reported, the main impact of the COVID-19 pandemic on the Group was a one-year delay to the scheduled start of production from the Finlaggan field from Q4 2020 to Q4 2021. This led to offshore manpower shortages and a one-year deferral of the FPS and Britannia platform maintenance shutdowns, originally scheduled for summer 2020, during which the Finlaggan field was supposed to be tied-in to the Britannia platform as per the original schedule. Aside from this deferral of offshore maintenance work, and the more indirect effect on the global oil price, COVID-19 had little impact on the Group's business. Despite the challenging environment, good progress was maintained on the Finlaggan development through 2020 as described below.

On 22 January 2021 the Group announced that it had achieved carbon neutrality for 2019 for Scope 1 and 2 carbon dioxide emissions by participation in offsetting programmes aligned with the UN Sustainable Development Goals. The Group discloses information in respect of streamlined energy and carbon reporting which is included in the Report of the Directors on pages 8-11.

Producing assets operations

During the financial year ended 31 December 2020, the Group's interests in the Mungo, Monan, Bacchus, Britannia and Cormorant East producing fields averaged 4,040 boepd net (2019: 3,435 boepd). Although average production from the Mungo and Monan fields decreased vs. 2019 due to lower platform uptime, this was more than offset by the inclusion of a full year's production from the Britannia field interest, which the Group acquired in July 2019.

Bacchus

The Group owns a 20% non-operated interest in the Bacchus producing field (operated by Apache) developed as a subsea tie-back to the Forties complex located in the Central North Sea. The field performed satisfactorily throughout 2020, with average daily production of 590 bopd net (2019: 630 bopd), which was in line with the operator's forecast. This production performance has been maintained through the first five months of 2021.

Zennor Petroleum Limited

Group Strategic Report - continued **for the Year Ended 31 December 2020**

On 28 December 2020 the operator spudded the Bacchus South well as a potential extension to the Bacchus field. Since the balance sheet date this well was found to be a dry hole and the joint venture then decided to drill a side-track to the secondary target (Bacchus Far East). At the date of this report the results of the Bacchus Far East indicate the well has drilled a poor quality reservoir sequence that does not justify the costs of completing the well and tying it into the subsea systems; as such the well is being plugged and abandoned.

Mungo and Monan

The Group owns a 12.6451% non-operated interest in the Mungo and Monan producing fields (operated by BP), which form part of the Eastern Trough Area Project (ETAP) located in the Central North Sea. Mungo and Monan had a disappointing 2020 due to two unscheduled shutdowns (of a month each) during the year. As a result, average daily production fell to 1,230 boepd net (2019: 1,600 boepd). Although production performance improved through Q1 2021, this progress was offset by an unexpected ten-day maintenance shutdown overrun in April due to adverse weather conditions. Normal production levels are expected to be restored in Q3 2021 after the planned ETAP maintenance shutdown in June/July 2021.

Britannia

The Group owns an 8.97% non-operated interest in the Britannia producing field (operated by Harbour), which is a substantial multi-well field located in the Central North Sea. The Britannia platform is linked to both SAGE and Forties Pipeline Systems and is a well-established hub for multiple satellite fields in the area; Brodgar, Callanish, Alder, Enochdhu and Finlaggan, across which platform operating costs are shared. These satellites generate tariff revenue for the owners of the Britannia field; the tariff revenue received by the Group in 2020 was \$4.2m (2019: \$2.1m). In 2020 Britannia field achieved daily net production averaging of 1,980 boepd (2019: 2,130 boepd), slightly down on prior year due to two unscheduled temporary interruptions. In 2021, year to date production performance has been good and in line with the operator's projections.

Cormorant East

The Group owns a 40% non-operated interest in the Cormorant East producing field (operated by TAQA) developed through two Extended Reach Drilling ("ERD") wells drilled from the Cormorant North platform, located in the Northern North Sea. In 2020 average daily net production was a consistent 240 bopd (2019: 140 bopd), following replacement of the CN07 down-hole pumps in July 2019. However, following cancellation in Q1 2020 of the planned CN08 side-track well, the operator confirmed that the field will cease production in mid-2023, a few years earlier than expected. Although the associated decommissioning costs are relatively small (involving the plugging of two platform wells only) and the Group has no liability for any part of the platform decommissioning, this earlier cessation of production, together with the cancellation of the CN08 side-track has triggered a significant impairment loss of \$4.1m in the Group's 2020 accounts. Since the balance sheet date, production has been better than expected with a steady net rate of 260 bopd.

Causeway

The Group holds a 35.5% in the Causeway Field which ceased production in May 2016. Management have been informed by the operator that abandonment work has been postponed until at least 2026. Based on the operator's latest decommissioning cost estimate, the Group's liability as at 31 December 2020 is \$9.1m (2019: \$8.6m).

Appraisal and development projects

Finlaggan

The Group's main development asset is its 100% operated interest in the Finlaggan Development. Finlaggan is a fully sanctioned 26 mmboe gas condensate field development project. Unfortunately, due to the impact of COVID-19 in March 2020, the key triennial FPS and Britannia platform maintenance shutdowns, during which key Finlaggan topside valve connections and safety system tie-in works need to be carried out, were delayed by one year, imposing a similar one-year delay to Finlaggan first production. Despite the more difficult offshore working environment during 2020, all the scheduled subsea construction and installation work scopes, including the manifold and subsea spools, were carried out by the subsea facilities contractor in Q3 2020 on time and on budget. Although, as previously reported, offshore host modifications work on the Britannia platform was temporarily suspended in March 2020, the work resumed in June and was largely completed in December. As at 31 December 2020, the development project was approximately 90% complete in terms of value of work done. Although first production is not expected until Q4 2021, the remaining scope of construction work is relatively small.

Zennor Petroleum Limited

Group Strategic Report - continued **for the Year Ended 31 December 2020**

Murlach

The Group owns a 20% non-operated interest in Licence P2452 (BP operated) containing the Murlach field, a potential 30 mmbc (gross) oil field redevelopment project which is expected to be tied back to the ETAP platform. During 2020, pre-development design, planning and engineering studies were continued by the operator and the joint venture partners are currently progressing the project towards a potential investment decision in 2022.

Leverett

The Group owns 100% operated interest in Licence P2350, containing a significant share of the Leverett discovery in block 21/03d. Part of this discovery extends into the acreage held by the adjacent Brodgar field joint venture. Leverett represents a potential future tie-back development through the existing infrastructure in the Britannia hub area. It is an important part of the wider Greater Britannia Area plan which has aligned joint venture partners and the support of the Oil and Gas Authority ("OGA"). In March 2021 the Group received confirmation from the OGA that Phase B of the licence terms had been extended by 12 months to 30 September 2022.

Greenwell

Licence P2350 also contains a majority of the Greenwell DHI (direct hydrocarbon indicator) in block 15/29c, which the group interprets to be an extension of the producing Callanish field. Callanish was developed as a subsea tie-back to the Britannia facilities and exhibits the same DHI as that observed across Greenwell.

Courageous

The Group owns a 45% non-operated interest in Licence P2397, containing the Courageous discovery in blocks 30/1a and 30/2e, which represents a potential subsea tie-back development to the Stella field infrastructure. Both Courageous and Stella are operated by the same company. The Courageous operator has stated that it will apply to the OGA, in June 2021, for a twelve-month extension to the licence term to enable completion of the technical work required to justify an appraisal well in 2023.

Platypus

On 24 June 2020 the Group signed an agreement to sell its 11% non-operated interest in Licence P1242 to one of the other joint venture partners for a nominal amount.

Financial performance

The Group received an average physical oil sales price of \$41/bbl through 2020 (2019: \$64/bbl) due to a sharp decline in oil prices caused by a combination of the Saudi Arabia-Russia oil price war in Q1 2020 and the significant decrease in oil demand driven by global lockdowns to tackle COVID-19 which continued for most of the year. As a result, annual turnover decreased to \$55.7m (2019: \$60.8m) despite the inclusion of a full year's production from the Britannia field interest which the Group acquired in July 2019.

Gross profit for the period was \$1.0m (2019: \$22.1m), before administration, finance and exceptional costs. Gross margins were eroded by both low hydrocarbon prices and unrealised mark-to-market losses as at 31 December 2020 in respect of the Group's forward 2021 and 2022 oil and gas hedge positions.

The loss before tax for the year was \$14.1m (2019: profit \$12.7m), including exceptional tangible and intangible asset impairments of \$6.1m (2019: \$4.6m) and a negative prior year misstatement adjustment of \$2.5m (see note 6).

The deferred tax calculations for the year include an increase of \$18.7m, of which \$16.7m is included in the profit and loss account, to the carrying value of the Group's deferred tax asset due to the additional investment made during the year in the Group's Finlaggan development and the future taxable profits to be generated from that field and continued operation of the Group's other producing assets. The Group has significant additional unused tax losses to offset against future profits (see note 7), but the timing and quantum of future profits is not yet considered sufficiently certain to recognise any higher deferred tax value at the balance sheet date. The deferred tax credit resulted in an overall post-tax profit for the year of \$2.6m (2019: profit \$26.0m).

During the year, the Group's investment in the Finlaggan asset increased by \$72.7m to \$395.8m; comprising \$64.7m new expenditure, less decommissioning asset reduction of \$2.6m, plus \$10.6m from the impact of foreign exchange movements over the period (see note 11). As at the balance sheet date the Group had minimum contractual capital commitments of \$35.3m in relation to the ongoing Finlaggan development project, which are not otherwise provided for in the financial statements (see note 23).

Zennor Petroleum Limited

Group Strategic Report - continued **for the Year Ended 31 December 2020**

Financing

Senior Secured Term Loan Facility

On 31 July 2020 the Group signed an amendment and restatement agreement ("ARA") in respect of its October 2018 Senior Secured Term Loan Facility ("the Loan") with a syndicate of six banks to realign the Loan terms with the delayed Finlaggan Development. The loan is secured against the Group's ownership interests in the Finlaggan, Mungo, Monan and Bacchus Fields. Under the ARA, the tenor of the Loan was increased by one year to 1 October 2025 and the available amount was increased by £15m to £185m, through the inclusion of a committed accordion tranche. The interest rate on the Loan remains unchanged. Under the amended terms of the debt facility, quarterly loan repayment instalments were delayed by one year and are not scheduled to commence until 1 April 2022.

During 2020 the Group made four loan utilisations totalling £34m, thus increasing the outstanding loan from £128m as at 1 January 2020 to £162m (\$221.1m) as at 31 December 2020 (see note 21). Since the balance sheet date, the Group has made two more loan utilisations totalling £17m, increasing the outstanding loan amount to £179m. On 6 May 2021, due to the impending sale to NEO, the lenders agreed to delay the next redetermination event to 30 September 2021. Upon completion of the NEO transaction, the Loan will be fully repaid to lenders.

Two Year Britannia Term Loan

On 30 September 2020, the Group signed an ARA in respect of the June 2019 senior secured two-year term loan facility agreement with Nedbank. This term loan is secured against the Group's ownership interest in the Britannia field. Under the terms of the ARA, the tenor of the loan was extended by eighteen months to 31 December 2022 and the available amount increased from £5.1m to £8m. There was no new loan utilisation during 2020. The outstanding amount of this loan was £4.9m (\$6.6m) as at 31 December 2020 (see note 21). There have been no further utilisations since the balance sheet date. The next redetermination event is scheduled for 30 September 2021. Upon completion of the NEO transaction, this term loan will be fully repaid to Nedbank.

Licence awards

In line with the Group's growth strategy, various business development initiatives were continued during the year. In December 2020, the Group were awarded interests in eight new licences as the result of a very successful UKCS 32nd Offshore Application Round, on which bids were submitted in November 2019. These licences are all located in the UK Central North Sea and contain a mixture of undeveloped discoveries and appraisal opportunities, with low future financial commitments. Seven of these eight licences are held with aligned joint venture partners and will provide some exciting operated and non-operated work programmes over the next eighteen months.

Impairments

In addition to the 2020 impairment of the Group's interest in the Cormorant East field mentioned above, the Company also reported a total intangible asset impairment of \$2.0m in respect of the directors' decision to withdraw from exploration Licence P2381 (Manhattan), in which the Group held a 35% non-operated interest, because the drilling target proposed by the operator did not meet the Group's minimum required investment metrics.

Future plans

At a high level, the Board's primary objectives for 2021 are to maintain a good health, safety and environmental record on the Group's offshore fields and to maintain momentum on the Finlaggan field development to ensure first production is achieved in Q4 2021 as planned and to take some initial steps towards the longer term UK North Sea industry goal of "Net Zero". One particular challenge in 2021 for all oil and gas fields in the UK Central North Sea is the re-scheduled triennial maintenance shutdown of the Forties Pipeline System and all linked platforms in June 2021, which will involve the loss of 1-2 months of production and revenue from many fields with little offsetting reduction of operating cost. Beyond this, the director's primary objective is to ensure a smooth transition for the impending change of ownership of the Group.

PRINCIPAL RISKS AND UNCERTAINTIES

By its very nature, the UK offshore oil and gas industry involves a high degree of risk. The directors consider the principle risks currently faced by the Group as being:

Zennor Petroleum Limited

Group Strategic Report - continued **for the Year Ended 31 December 2020**

FINANCIAL RISK

The Group monitors and manages the financial risks relating to its operations on a continuous basis. These include foreign exchange, interest rate, credit, liquidity and oil and gas price risks.

With all its oil sales revenue earned in US Dollars and most costs (including longer term decommissioning costs) incurred in Sterling the Group is exposed to currency risk. The Group's strategy is to broadly match the currency of funds held with the expected expenditure in those currencies, thus mitigating any potential currency risk over the short term. Over the next twelve months the Group expects to reduce this risk by increasing its Sterling revenues from the sale of UK gas from the Finlaggan field.

The Loan facility signed in October 2018 is a significant longer-term liability for the Group (note 21), where the associated interest cost is linked to the variable Sterling LIBOR reference. The Group is exposed to the risk of rising Sterling interest rates in the future. Although interest rates are expected to remain low in the medium term, the Group may use interest rate hedging contracts where considered economically viable and justified.

The Group's other significant financial instruments are trade receivables (note 14), put options (note 14), cash and cash equivalents (note 15), trade payables (note 18), option collars (note 18) and swaps (note 18). The Group considers the carrying value of its financial assets and liabilities to be materially the same as their fair value. The Group does not enter into or trade financial instruments, or interest rate and foreign exchange derivatives, for speculative purposes. The Group has no material financial assets or liabilities that are past due. Further details are provided in note 28.

ENVIRONMENT, HEALTH AND SAFETY

Through its participation in offshore drilling operations the Group is exposed to the risk of a safety incident or operational accident, the consequences of which may result in loss of life, injury and/or significant pollution of the local environment. The Group manages this risk through the implementation of comprehensive EH&S systems and guidelines, including emergency response and oil spill response procedures. In addition, the Group has put in place suitable insurance policies to reduce the potential impact of physical risks associated with offshore facilities and drilling activity.

ENERGY TRANSITION

Climate change and the energy transition are likely to impact longer term oil and gas prices, which may affect the recoverable amount of the Group's producing and development stage oil and gas properties. Climate change may possibly bring forward the date of decommissioning of the Group's oil and gas properties, thereby increasing the net present value of the associated provision. However, the Group's oil and gas properties are expected to be fully depreciated within 15 years, during which timeframe it is expected that global demand for oil and gas will remain robust. In addition, the energy transition may adversely impact the future development or viability of intangible oil and gas exploration and evaluation prospects.

REGULATION

The UKCS licencing regime under which the Group's North Sea operational rights and obligations are defined may be subject to future change for various reasons including politics and climate change. The Group maintains regular communication with the UK regulatory authorities and seeks to ensure its policies and procedures align with prevailing government rules and guidelines.

OIL AND GAS PRICE RISK

The market price for oil and gas is volatile and any fall in oil or gas price reduces the income and profitability generated by the Group's producing assets. To partly mitigate this risk the Group uses hedging contracts, normally purchased put options, where considered economically viable and justified.

OPERATIONAL RISK

The Group's income is currently derived from five non-operated producing fields. Operations may not run according to plan due to potential cost overruns, equipment failure, reservoir performance or other unexpected events (as COVID-19 pandemic has clearly demonstrated) that can lead to supply chain disruptions, labour shortages and delays leading to a risk of significant revenue loss. Although COVID-19 is considered an ongoing operational risk to UK North Sea activity in the future, this risk has been mitigated by the detailed policies and procedures implemented by all offshore UK field operating companies, in collaboration with each other and the Oil & Gas UK association regarding best practice. However, some other operational risks are mitigated by the fact that the Group's production is generated from different fields and that production from the Mungo, Monan and Britannia fields is generated from multiple separate wells.

Zennor Petroleum Limited

Group Strategic Report - continued
for the Year Ended 31 December 2020

ORGANISATIONAL CAPABILITY

Although the COVID-19 pandemic continues to disrupt normal office working, all staff have adapted very well to the changed circumstances. Based on the experience of 2020, the Group does not expect any future negative impact from COVID-19 on the business. Given the relatively small size of the Group's current organisation, the loss of key personnel from the business and/or an inability to attract and retain high quality people could affect the Group's operational performance and growth strategy. Looking ahead this risk will be significantly reduced when the business becomes integrated into the larger NEO organization.

EXPLORATION OR APPRAISAL FAILURE

On each and every drilling event in which the Group participates, there is a risk of an unsuccessful result for either technical or operational reasons. In addition, the Group may be unable to acquire new acreage and resource opportunities from which to grow the Group's asset portfolio and future shareholder value. To manage this risk the Group uses the services of experienced operations, commercial and technical staff to manage these projects.

JOINT VENTURE PARTNER ALIGNMENT

UK offshore oil and gas operations are normally undertaken as joint ventures. There is a risk that from time to time the Group's joint venture partners may not all be aligned in their objectives and priorities which may lead to delays and/or inefficiency. Where the Group has only a small working interest in a specific licence, the Group's ability to influence the other joint venture partners may be limited. To reduce this risk, the Group maintains regular dialogue with all joint venture partners on both operated and non-operated projects.

KEY PERFORMANCE INDICATORS

The Group tracks its production performance and profitability through the collation of daily production and well performance data, the preparation of monthly management accounts and regular meetings with both field operators and joint venture licence partners to consider EH&S performance, carbon emissions and operating performance and costs, against approved forecasts and budgets. Progress towards the Group's asset portfolio growth objectives is measured in terms of both quantity and quality of reserves and resources acquired, over a given period, and also in terms of the cash invested in such assets, including acquisition costs paid.

SECTION 172 STATEMENT

The directors' statement under Section 172 of the Companies Act 2006 is included in the Report of the Directors on pages 8-11.

Approved by the Board on 29 June 2021 and signed on its behalf by:


.....
J M R Henry - Director

Zennor Petroleum Limited

Report of the Directors **for the Year Ended 31 December 2020**

The directors present their report with the financial statements of the Company and the Group for the year ended 31 December 2020. An outline of the Group's strategy and objectives, a review of operational activity during the year and a summary of the principal risks and uncertainties to the business are presented in the Strategic Report, incorporated by reference into this Directors' Report.

DIVIDENDS

The directors do not recommend the payment of a dividend (31 December 2019: nil).

EVENTS SINCE THE END OF THE YEAR

Information relating to events since the end of the year is given in note 25 to the financial statements.

DIRECTORS

The directors shown below have held office during the whole period of this report and to the date of this report (unless stated otherwise):

M J Rowe

R I S Crawford

J M R Henry

J A M Cheng

A P Jackson (resigned 14 April 2020)

Dr A J Parsley

T Kumar

N Simakina (appointed 1 October 2020)

FUTURE DEVELOPMENTS

Future business developments are discussed in the Strategic Report on page 2.

GOING CONCERN

As of the date of approval of these financial statements, the Group had cash and cash equivalents of \$17.0m. During the period prior to the anticipated completion of the Group's acquisition by NEO, the Group has access to additional committed equity funding from its current shareholders of \$99.9m, which can be drawn at any time and for any purpose, subject only to approval by the Board of directors of the Group's immediate parent company, as well as the remaining undrawn debt facilities of £6.0m (\$8.2m) to part fund completion of the Finlaggan development and other funding needs, as the case may be. Upon completion of the NEO acquisition the outstanding bank loans will be fully repaid, together with any interest due, from consideration monies received and the committed equity funds from current shareholders will no longer be available.

The directors have prepared cash flow projections for twelve months from the date of approval of these financial statements. The key assumptions in these projections include a Brent oil price of \$60/bbl, production volumes and expenditure in line with the latest operator budgets and the positive impact of Finlaggan first production from Q4 2021. Downside scenarios have been run including the impact of a lower Brent oil price of \$55/bbl, a delay to Finlaggan first production and a 10% reduction in production across all the Group's current producing fields; the Group has adequate cash resources under each such scenario.

Although the directors acknowledge that there is some uncertainty as to how NEO will choose to organise and fund the Group post the acquisition completion, the projections and sensitivities outlined above indicate that the Group should have sufficient internal cash funds and sources of cash generation to meet its liabilities as they fall due for at least the following twelve months. Therefore, the directors believe the Company is well placed to manage its business risks successfully and that they have a reasonable expectation the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors have adopted the going concern basis in preparing the annual report and accounts.

STREAMLINED ENERGY AND CARBON REPORTING (SECR)

The table below sets out details of the regulated SECR energy and greenhouse gas ("GHG") emission sources for the current reporting period for the Group. Reported GHG emissions data is compliant with SECR requirements and has been calculated with the GHG protocol and SECR guidelines. The Group holds no operational control over any platform facilities in the UK North Sea. Although the Group leases a small office in Guildford, no energy usage is reported due to a lack of specific data between multiple different tenants in the same building. Business travel during 2020 was extremely low and is also excluded from these figures.

Zennor Petroleum Limited

Report of the Directors - continued **for the Year Ended 31 December 2020**

Emissions metric		Net emissions (tCO₂e)	
Field name	Group W1%	2020	2019
Bacchus	20.0%	8,406	8,515
Britannia	8.97%	13,170	8,815*
Cormorant East	40.0%	4,122	2,256
Mungo & Monan	12.65%	12,439	14,939
Finlaggan***	100.0%	948	18,256
Total emissions		<u>39,085</u>	<u>52,781</u>

Intensity metric		Intensity (tCO₂e / boe)	
Field name	Host facility	Group W1%	2020****
Bacchus	Forties Alpha**	0.0%	39.2
Britannia	Britannia	8.97%	18.1
Cormorant East	Cormorant North**	0.0%	46.5
Mungo & Monan	ETAP**	4.76%	28.0
Finlaggan***	Britannia	8.97%	18.1

Notes: *the Group only acquired the Britannia field interest in July 2019

**the Bacchus, Cormorant East, Mungo & Monan fields are all tied into third party owned host platforms

***Finlaggan has not commenced production; emission data relates to facilities construction

****As this is first year of reporting, no comparison of the intensity metric to previous years has been disclosed

The Group takes its impact on the environment seriously and seeks to identify areas of the business where energy may be saved. While all the Group's current offshore producing assets are not under the operational control of the Group, the Group seeks to work with licence partners to ensure that best practice is employed in field operations with regard to the Group's principles of environmental and corporate governance strategy.

During 2020, the Group offset 52,900 tonnes of CO₂e emissions in 2019 by emission reductions in the VCS standard through the climate protection project Hyundai Steel Waste Energy Recovery Co-generation Project, South Korea, and a further 100 tonnes of CO₂e emissions in 2019 by emission reductions in the UK Woodland Carbon Code through the climate protection project Wester Coshieville (Forest Carbon Group Scheme 8), Scotland.

SECTION 172

This section describes how the directors have had regard to the matters described in section 172(1) of the Companies Act 2006. It also forms the directors' statement as required by section 414CZA of the Companies Act 2006. The directors have acted in a way that they considered, on a best effort basis, would be most likely to promote the success of the Company and the Group for the benefit of its shareholders. In so doing the directors have had regard to:

The likely consequences of any decision in the long term

The Company has a board of competent and experienced professionals with a complimentary mix of skills. The board meets regularly on an informal basis to consider and discuss long-term goals of the Company and the impact that any decisions would have to the stakeholders of the Company. The board reviews the strategy, risks and performance of the business, including operations and finance. The board's aim is to make informed decisions to maintain the best interest of the Company and its shareholders.

The interest of the Group's employees

The executive directors, management and employees are all located in a single office in Guildford, Surrey. The executive directors of the board are readily accessible to the workforce and actively promote employee engagement through regular meetings and monthly business updates distributed by email. Key business issues and performance are discussed. Employees are encouraged to ask questions directly in either an open forum or a one-to-one basis.

The impact of the Group's operations on the community and the environment

The Group is committed to conducting its business in a manner that protects people from harm and preserves the environment. The Group has health, safety and environmental policies and procedures in place to honour this commitment and implements them proactively.

Zennor Petroleum Limited

Report of the Directors - continued **for the Year Ended 31 December 2020**

The need to foster the Group's business relationships with suppliers, customers and others

Members of the management team and the board meet with key suppliers, customers and lenders to enhance those relationships and exchange information. Monthly reports are provided to lenders in parallel with regular meetings and phone conversations. The Group has only a limited number of suppliers and customers, which reflects the nature of its activities as a non-operator in the UK. Each oil and gas licence asset is governed by a joint operating agreement, between the joint venture partners, which defines how that asset will be operated and managed. The Group participates at regular meetings under these agreements and uses its influence to ensure these assets are managed to the benefit of the Group, while having due regard to the environment in line with all applicable UK regulations. The Group's only customers are those companies to whom the Group sells its physical oil and gas production, where the relationships are governed by the negotiated contracts that have been put in place. The directors aim to act fairly and responsibly in all dealings with customers and suppliers.

The desirability of the Group maintaining a reputation for high standards of business conduct

The Group operates in accordance with high ethical standards for governance. The UK oil and gas industry is a highly regulated business environment and the Group is subject to significant scrutiny and oversight as a function of the financial backing received from both Kerogen Capital (a private equity fund manager) and a syndicate of bank lenders. The Company's directors and officers are required to comply with the requirements of all applicable Anti-Bribery and corruption legislation.

The need to act fairly as between the members of the Company

The Company is 100% owned by Plutus Energy Investment Holdings Limited, a private unquoted company incorporated in Jersey.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- present fairly the financial position and financial performance of the Company;
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state that the Company has complied with IFRS or UK Accounting Standards as applicable, subject to any material departures disclosed and explained in the financial statements;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors confirm that they have complied with these requirements.

Zennor Petroleum Limited

Report of the Directors - continued
for the Year Ended 31 December 2020

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

APPOINTMENT OF AUDITOR

Although Deloitte LLP have expressed their willingness to continue in office as auditor to the Company should the ownership structure remain unchanged, the Directors expect the acquisition of the Company by NEO to complete in Q3 2021 and for Deloitte LLP to resign on or shortly after the date of completion. It will then be necessary to obtain the approval of the members of the Company by a shareholder written resolution to appoint a new auditor to the Company and authorise the directors to determine the future remuneration of the auditor.

Approved by the Board on 29 June 2021 and signed on its behalf by:


.....
J M R Henry - Director

**Independent auditor's report to the members of
Zennor Petroleum Limited**

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Zennor Petroleum Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated Statement of Profit or Loss;
- the Consolidated Statement of Profit or Loss and Other Comprehensive Income;
- the Consolidated and Company Statements of Financial Position;
- the Consolidated and Company Statements of Changes in Equity;
- the Consolidated Statement of Cash Flows and related notes 1 and 2; and
- the related notes 1 to 28.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue. Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

**Independent auditor's report to the members of
Zennor Petroleum Limited - continued**

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

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

We considered the nature of the group's industry and its control environment and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and tax legislation in the UK.
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the terms of the licences which govern their UK oil & gas operations and UK health and safety and environmental regulations.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our specific procedures performed to address it are described below:

- Recoverability of oil & gas properties: the calculation of the recoverable amount of oil & gas properties requires significant judgement in a number of areas, including future oil and gas price estimates and discount rate. The procedures we performed for oil and gas prices included independently developing a reasonable range of forecasts based on external data obtained, against which we compared management's price assumptions in order to challenge whether they are reasonable. We also benchmarked the discount rate applied against a variety of peer group companies to assess whether it is reasonable.

**Independent auditor's report to the members of
Zennor Petroleum Limited - continued**

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the directors' report.

Matters on which we are required to report by exception

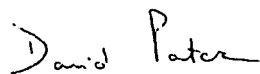
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

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



David Paterson (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
29 June 2021

Zennor Petroleum Limited

Consolidated Statement of Profit or Loss
for the Year Ended 31 December 2020

	Notes	31.12.20 \$'000	31.12.19 \$'000
CONTINUING OPERATIONS			
Revenue		55,733	60,838
Cost of sales		<u>(54,697)</u>	<u>(38,737)</u>
GROSS PROFIT		1,036	22,101
Administrative expenses		(4,550)	(4,877)
Foreign exchange gain		<u>999</u>	<u>1,211</u>
OPERATING (LOSS)/PROFIT BEFORE IMPAIRMENTS AND EXCEPTIONALS		(2,515)	18,435
Intangible asset impairment	10	(1,987)	(3,634)
Tangible asset impairment	11	(4,100)	-
Prior year mismeasurement accrual	6	(2,520)	-
Change in decommissioning provision	20	274	-
OPERATING (LOSS)/PROFIT	6	<u>(10,848)</u>	<u>14,801</u>
Finance costs	5	(3,274)	(2,294)
Finance income	5	<u>50</u>	<u>187</u>
(LOSS)/PROFIT BEFORE TAX		(14,072)	12,694
Tax credit	7	<u>16,687</u>	<u>13,279</u>
PROFIT FOR THE YEAR		<u>2,615</u>	<u>25,973</u>
Profit attributable to: Owners of the parent		<u>2,615</u>	<u>25,973</u>

Zennor Petroleum Limited

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the Year Ended 31 December 2020

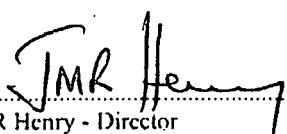
	Notes	31.12.20 \$'000	31.12.19 \$'000
PROFIT FOR THE YEAR		2,615	25,973
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Item that may be reclassified to profit or loss:			
Foreign exchange differences		7,448	3,455
Income tax relating to item of other comprehensive loss		<u>-</u>	<u>-</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		<u>7,448</u>	<u>3,455</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>10,063</u>	<u>29,428</u>
Total comprehensive income attributable to:			
Owners of the parent		<u>10,063</u>	<u>29,428</u>

Zennor Petroleum Limited (Registered number: 08818762)

Consolidated Statement of Financial Position
31 December 2020

	Notes	31.12.20 \$'000	31.12.19 \$'000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	10	12,019	8,857
Property, plant and equipment	11	510,250	448,095
Prepayments > 1 Year	9	7,096	6,932
Deferred tax asset	7	114,559	95,853
		<u>643,924</u>	<u>559,737</u>
CURRENT ASSETS			
Inventories	13	2,371	4,543
Trade and other receivables	14	12,590	13,047
Cash and cash equivalents	15	27,308	40,577
		<u>42,269</u>	<u>58,167</u>
TOTAL ASSETS		<u>686,193</u>	<u>617,904</u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	16	202,930	202,930
Foreign currency translation reserve	17	1,766	(5,682)
Retained earnings	17	117,093	114,478
TOTAL EQUITY		<u>321,789</u>	<u>311,726</u>
CURRENT LIABILITIES			
Trade and other payables	18	23,697	17,199
Loans	21	-	8,040
		<u>23,697</u>	<u>25,239</u>
NON-CURRENT LIABILITIES			
Provisions	20	109,769	105,705
Loans	21	227,750	175,150
Other payables	22	3,188	-
Lease liabilities	19	-	84
		<u>340,707</u>	<u>280,939</u>
TOTAL LIABILITIES		<u>364,404</u>	<u>306,178</u>
TOTAL EQUITY AND LIABILITIES		<u>686,193</u>	<u>617,904</u>

The financial statements were approved by the Board of Directors on 29 June 2021 and were signed on its behalf by:


J M R Henry - Director

Zennor Petroleum Limited (Registered number: 08818762)

Company Statement of Financial Position
31 December 2020

	Notes	31.12.20 \$'000	31.12.19 \$'000
ASSETS			
NON-CURRENT ASSETS			
Investments	12	<u>179,915</u>	<u>169,640</u>
		<u>179,915</u>	<u>169,640</u>
CURRENT ASSETS			
Trade and other receivables	14	503	4,771
Cash and cash equivalents	15	<u>241</u>	<u>3,870</u>
		<u>744</u>	<u>8,641</u>
TOTAL ASSETS		<u><u>180,659</u></u>	<u><u>178,281</u></u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	16	202,930	202,930
Retained deficit	17	<u>(34,071)</u>	<u>(32,938)</u>
TOTAL EQUITY		<u><u>168,859</u></u>	<u><u>169,992</u></u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	18	<u>11,800</u>	<u>8,289</u>
TOTAL LIABILITIES		<u><u>11,800</u></u>	<u><u>8,289</u></u>
TOTAL EQUITY AND LIABILITIES		<u><u>180,659</u></u>	<u><u>178,281</u></u>

The Company reported a loss for the year of \$1.1m (2019: loss \$1.5m). The financial statements were approved by the Board of Directors on 29 June 2021 and were signed on its behalf by:


J M R Henry - Director

Zennor Petroleum Limited**Consolidated Statement of Changes in Equity
for the Year Ended 31 December 2020**

	Called up share capital \$'000	Foreign currency translation reserve \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 January 2019	175,930	(9,137)	88,505	255,298
Changes in equity				
Issue of share capital	27,000	-	-	27,000
Total comprehensive income	-	3,455	25,973	29,428
Balance at 31 December 2019	202,930	(5,682)	114,478	311,726
Changes in equity				
Issue of share capital	-	-	-	-
Total comprehensive income	-	7,448	2,615	10,063
Balance at 31 December 2020	202,930	1,766	117,093	321,789

Zennor Petroleum Limited

Company Statement of Changes in Equity
for the Year Ended 31 December 2020

	Called up share capital \$'000	Retained deficit \$'000	Total equity \$'000
Balance at 1 January 2019	175,930	(31,435)	144,495
Changes in equity			
Issue of share capital	27,000	-	27,000
Total comprehensive loss	-	(1,503)	(1,503)
Balance at 31 December 2019	<u>202,930</u>	<u>(32,938)</u>	<u>169,992</u>
Changes in equity			
Issue of share capital	-	-	-
Total comprehensive loss	-	(1,133)	(1,133)
Balance at 31 December 2020	<u>202,930</u>	<u>(34,071)</u>	<u>168,859</u>

Zennor Petroleum Limited

Consolidated Statement of Cash Flows
for the Year Ended 31 December 2020

	Notes	31.12.20 \$'000	31.12.19 \$'000
Cash flows from operating activities			
Cash generated by/ (used in) operations	1	<u>12,726</u>	<u>14,425</u>
Net cash from operating activities		<u>12,726</u>	<u>14,425</u>
Cash flows used in investing activities			
Purchase of intangible fixed assets		(4,525)	(6,612)
Purchase of tangible fixed assets		(48,708)	(159,642)
Interest received		<u>50</u>	<u>187</u>
Net cash used in investing activities		<u>(53,183)</u>	<u>(166,067)</u>
Cash flows from financing activities			
Proceeds from share capital raises		-	27,000
Proceeds from loans and borrowings		46,407	151,041
Repayments of borrowings		(7,222)	(3,994)
Building lease payments		(152)	(147)
Other prepaid finance costs		(1,454)	-
Interest paid		<u>(10,217)</u>	<u>(6,331)</u>
Net cash from financing activities		<u>27,362</u>	<u>167,569</u>
Increase/(decrease) in cash and cash equivalents		(13,095)	15,927
Cash and cash equivalents at beginning of year		40,577	24,175
Effect of foreign exchange rate changes		<u>(174)</u>	<u>475</u>
Cash and cash equivalents at end of year		<u>27,308</u>	<u>40,577</u>

Zennor Petroleum Limited**Notes to the Consolidated Statement of Cash Flows
for the Year Ended 31 December 2020****1. RECONCILIATION OF PROFIT BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS**

	31.12.20	31.12.19
	\$'000	\$'000
Profit before income tax	(14,072)	12,694
Currency translation adjustments	(999)	(1,212)
Unwinding of discount on decommissioning provisions	2,568	1,716
Change in decommissioning estimate	(274)	-
Depreciation charges	16,915	17,739
Impairment	6,087	4,012
Other write offs	378	-
Finance charges	705	566
Finance income	(50)	(187)
	<u>11,258</u>	<u>35,328</u>
Decrease/ (increase) in inventories	2,172	(3,966)
Decrease/ (increase) in trade and other receivables	(457)	1,090
Increase/ (decrease) in trade and other payables	(247)	(18,027)
Cash from / (used in) operations	<u><u>12,726</u></u>	<u><u>14,425</u></u>

2. RECONCILIATION OF MOVEMENTS IN FINANCING RELATED LIABILITIES

	31.12.20	31.12.19
	\$'000	\$'000
Financing liability component at 1 January	185,369	35,280
Loan amounts received during year	46,407	150,778
Loan amounts repaid during year	(7,222)	(3,994)
Interest and commitment fees charged during the year (including capitalised)	10,110	7,291
Interest and commitment fees paid during the year	(10,060)	(5,938)
Impact of foreign exchange rate movements on Sterling liabilities	5,322	1,952
Financing liability component at 31 December	<u><u>229,926</u></u>	<u><u>185,369</u></u>
Financing liability component reported in:		
Current liabilities; accrued expenses (note 18)	2,176	2,179
Loans < 1 year (note 21)	-	8,040
Loans > 1 year (note 21)	<u>227,750</u>	<u>175,150</u>
	<u><u>229,926</u></u>	<u><u>185,369</u></u>

Zennor Petroleum Limited

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2020

1. AUTHORISATION OF THE FINANCIAL STATEMENTS AND IFRS STATEMENT OF COMPLIANCE

The Group's and Company's financial statements for the year ended 31 December 2020 were authorised by the Board of Directors on 29 June 2021 and the balance sheets were signed on the Board's behalf by JMR Henry.

The Company is a private company limited by shares, incorporated and domiciled in the United Kingdom and registered in England and Wales.

The Group's financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 as they apply to the financial statements of the Group for the year ended 31 December 2020.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 ('FRS 100') issued by the Financial Reporting Council. The parent company financial statements and related disclosures have been prepared in accordance with FRS 101 'Reduced Disclosure Framework'. Under FRS 101, the Company qualifies for certain disclosure exemptions in relation to financial instruments, capital management, presentation of a cash flow statement and related party transactions and has prepared the relevant disclosures accordingly. The principal accounting policies adopted by the Group and the Company are set out in note 2.

2. ACCOUNTING POLICIES

A summary of the principal accounting policies which have all been applied consistently throughout the current and prior year, is set out below.

Basis of preparation

These financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have been prepared under the historic costs convention, with the exception of derivative financial instruments and underlift / overlift which are revalued at fair value. Zennor Petroleum Limited is a limited company incorporated and domiciled in England and Wales. The Company's functional currency is US Dollars and the financial statements are presented in US Dollars.

Amendments to International Financial reporting Standards ("IFRS") that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards

The Group has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The standards which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Amendments to IFRS 3 Definition of a business

The Group chose to early adopt the revised version of IFRS 3 (as amended in October 2018) in the prior year. This includes an updated definition of what constitutes a business and also includes an optional concentration test, which can be applied on a transaction by transaction basis, to permit a simplified assessment of whether an

Zennor Petroleum Limited

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2020

2. ACCOUNTING POLICIES – continued

acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the concentration test is met, the set of activities and assets is determined not to be a business and the transaction can be treated as an asset acquisition.

Amendments to IAS 1 and IAS 8 Definition of material

The Group has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.

New and revised IFRSs in issue but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group in the current or future reporting periods nor on foreseeable future transactions.

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods.

Basis of consolidation

The Group's financial statements consolidate the financial statements of the company and its interests in its wholly owned subsidiaries, Zennor Energy Limited, Zennor North Sea Limited, Zennor Pathway Limited, Zennor Oil and Gas Limited, Zennor Exploration Limited, Zennor CNS Limited and Zennor Resources (N.I.) Limited. All intercompany balances and transactions have been eliminated on consolidation.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, the directors continue to adopt the going concern basis of accounting in preparing the financial statements as stated in the Report of the Directors on page 8.

Revenue recognition

Sales revenue represents the sales value, net of VAT, of the entity's share of oil and gas liftings in the year. Revenue from contracts with customers is recognised when the Group satisfies a performance obligation by transferring control of a good or service. The transfer of control of oil and gas sold by the Group coincides with title passing to the customer and the customer taking physical possession. Interest income is not significant and is accounted for on a receipts basis.

Financial instruments

Financial instruments comprise trade receivables, cash and cash equivalents, trade payables, bank borrowings, derivative financial instruments and equity instruments.

Trade receivables

Trade receivables are stated at cost, as reduced by any appropriate reductions for estimated irrecoverable amounts utilizing the expected credit loss approach outlined in IFRS 9.

Zennor Petroleum Limited

Notes to the Consolidated Financial Statements - continued **for the Year Ended 31 December 2020**

2. ACCOUNTING POLICIES – continued

Cash and cash equivalents

Cash and cash equivalents are balances with banks.

Trade payables

Trade payables are stated at cost.

Bank borrowings

Bank loans are recorded at the amount of the proceeds received. Any direct loan arrangement fees and costs paid are treated as a longer-term prepayment and amortised through the income statement on a straight-line basis over the life of the loan. Other borrowing costs, including interest and commitment fees, are accrued on a time basis and expensed in the income statement in the period in which they are incurred. All borrowing costs directly relating to the development of an oil and gas property are capitalized and added to the project cost during the development phase, until such time that the oil and gas property is capable of commercial production.

Derivative financial instruments

The Group enters into put option, collar and swap derivative transactions to manage its exposure to movements in oil and gas prices. Further details of these transactions are disclosed in note 28. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately. The Group does not adopt hedge accounting in relation to derivatives. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as an asset due after one year or a creditor due after more than one year if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Equity

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Exploration and appraisal expenditure

As allowed under IFRS 6 and in accordance with clarification issued by IFRIC, the Group has continued to apply its existing accounting policy to exploration and evaluation activity, subject to specific requirements of IFRS 6.

All licence acquisition, exploration and appraisal costs are initially capitalised in well, field or general exploration cost centres as appropriate pending determination. Expenditure incurred during the various exploration and development phases is written off unless commercial reserves have been established or the determination process has not been completed. Exploration and appraisal expenditure is classified as "intangible assets - exploration expenditure" pending evaluation. When the existence of commercial reserves is established and upon the approval of a development programme by the relevant authorities, directly related exploration and appraisal expenditure is reclassified as tangible fixed assets, at which point an impairment test is performed. Expenditure incurred prior to the acquisition of licences and the other costs of exploration activities which are not specifically directed to an identified structure are written off in the period in which they are incurred.

Property, plant and equipment

All fixed assets are initially recorded at cost. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Impairment

The Group monitors internal and external indicators of impairment relating to its tangible and intangible assets which may indicate that the carrying value of the assets may not be recoverable. The calculation of the recoverable amount from each production asset involves estimating the net present value of cash flows expected to be generated, based on assumptions on reserve quantities, production profile, oil and gas prices and operating costs. The pre-tax discount rate applied is a matter of judgement which reflects the risks involved. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the amount that would have been determined had no impairment loss been recognised in prior years. Any reversal is recognised in profit or loss.

Zennor Petroleum Limited

Notes to the Consolidated Financial Statements - continued **for the Year Ended 31 December 2020**

2. ACCOUNTING POLICIES – continued

Depletion and amortisation

All expenditure carried within each field is amortised 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, on a field-by-field basis. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

Commercial reserves

Commercial reserves are proven and probable oil and gas reserves.

Decommissioning

The Group recognises the full discounted cost of decommissioning when the Group has an obligation to plug and abandon a well, or to dismantle and remove a production, transportation or processing facility and to restore the site on which it is located. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements and is re-assessed each year. Any changes in the present value of the estimated expenditure is added to or deducted from the cost of the assets to which it relates, unless the associated activity resulted in write-off to the profit and loss account.

This asset is subsequently depreciated as part of the capital costs of the production and related pipeline facilities, on a unit of production basis. The unwinding of the discount on the decommissioning provision is included in finance costs. Changes in the estimates of commercial reserves of decommissioning cost estimates are dealt with prospectively.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

A provision is recognised for those matters for which the tax determination is uncertain, but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realized, based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that

Zennor Petroleum Limited

Notes to the Consolidated Financial Statements - continued **for the Year Ended 31 December 2020**

2. ACCOUNTING POLICIES – continued

would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. No deferred tax asset is recognised in respect of any unactivated investment allowances.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Inventory

Lifting arrangements for oil and gas is such that each participant may not receive its share of the overall production in each period. The difference between cumulative entitlement and cumulative production less stock is 'underlift' or 'overlift'. Underlift and overlift are valued at market value and included within debtors ('underlift') or creditors ('overlift'). Movements during an accounting period are adjusted through cost of sales, such that gross profit is recognised on an entitlement basis. Physical oil and gas inventory on hand is revalued at market value. The Group's share of any physical equipment stock is accounted for at the lower of cost and net realisable value.

Foreign currencies

In the accounts of individual companies, transactions in foreign currencies, being currencies other than the functional currency, are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date and differences are taken to the income statement. Non-monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rate as at the date of initial transaction. Exchange gains and losses arising from translation are charged to the income statement.

On consolidation, the Group's assets and liabilities in subsidiaries with a non-US dollar (being Sterling) functional currency are translated at exchange rates prevailing on the balance sheet date. Sterling income and expense items are generally translated at the average exchange rate for the year. Exchange rate gains and losses arising are recognised in reserves.

Leases

As a lessee the Group recognises a right-of-use asset and lease liability at the lease commencement date, the lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the discount rate implied in the lease. The lease liability is subsequently recorded at amortised costs using the effective interest rate method. The liability is remeasured when the group exercises an extension or termination option. When the lease is remeasured in this way a corresponding adjustment is made to the carrying amount of the right-of-use asset. The right-of-use asset is measured at cost, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received. Right-of-use assets are depreciated over the lease term period.

Employee benefit costs

The Group makes defined contributions to the personal pension schemes of its employees. Contributions payable are charged to the profit and loss account in the period to which they relate.

Investments

In its separate financial statements, the Company recognises its investments in subsidiaries at cost less provision for impairment.

Zennor Petroleum Limited

Notes to the Consolidated Financial Statements - continued **for the Year Ended 31 December 2020**

3. USE OF JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In applying the Group's accounting policies, which are described in note 2 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Where required, such estimates and the associated assumptions are based on historical experience and other factors that are considered to be relevant. Future results may differ from these estimates.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are as follows:

Assessment of commercial reserves

Management is required to assess the level of the Group's commercial reserves together with any future expenditure required to access those reserves. These are utilised in determining the amortisation and depletion charge for the period and assessing whether any impairment adjustment is required. In addition to its own assessments, the Group employs independent reserves specialists who periodically assess the commercial reserves by reference to geological, geophysical and financial information in respect of the Group's assets.

Assessment of asset impairment for oil and gas properties

At an individual asset level, management monitors internal and external indicators of impairment which may indicate that the carrying value of the Group's tangible oil and gas properties and development assets may not be recoverable. The calculation of the recoverable amount of a producing or development stage oil & gas asset involves estimating the net present value of the cash flows expected to be generated. Future cash flows are based on assumptions such as estimated commercial reserves, as determined by specialist external reserves auditor and externally sourced oil and gas sales price projections. The discount rate applied is a pre-tax rate which reflects the risks of offshore oil and gas production in the UK. In line with the Group's accounting policy on impairment, management performs an impairment review of the Group's oil and gas assets at least annually, with reference to annual external reserves reports and other indicators as set out in IAS 36. During the period an impairment was recorded for the Group's interest in the Cormorant East field. Further details of the sensitivities run are available in note 11.

Assessment of deferred tax asset recoverability

Management is required to assess whether the Group will generate sufficient probable taxable profits in order to utilise the recognised deferred tax asset, including that portion arising from past unutilised tax losses. This assessment is based on forecast estimated cash flows from operations (which are impacted by many variables) and judgement about the application of current tax regulations. Further details are disclosed in note 7.

Assessment of decommissioning liabilities

As a result of the acquisition of Zennor CNS Limited and Zennor Resources (N.I.) Limited in March 2016 and an interest in the Britannia Field in July 2019 the Group took on various decommissioning liabilities in respect of the tangible assets purchased. Management is required to assess the amount of the Group's decommissioning liabilities at the balance sheet date. For this assessment the Group relies on the independent decommissioning cost estimate prepared on a periodic basis by the operator in respect of each non-operated producing asset. However, in respect of the Group's operated assets, the estimate is prepared by internal experts. To calculate the liability at the balance sheet date, management applies inflation and discount rates as considered appropriate to the UK offshore sector. The liability figure is also impacted by changes in foreign exchange rates. Further details are disclosed in note 20.

Zennor Petroleum Limited

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2020

3. USE OF JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Critical accounting judgements

The following are critical accounting judgements, apart from those involving estimations (which are dealt with separately above), that have been made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Going concern

The directors prepare cash projections which include a number of judgements and estimates. They currently show that the Group will be able to operate and meet all commitments as they fall due and will have adequate resources to continue in operational existence for the foreseeable future (being 12 months from the date of approval of these financial statements). Further details of the assessment are provided in the Report of the Directors on page 8.

Identification of impairment triggers for intangible oil & gas assets

Costs capitalised as intangible assets are assessed for impairment when circumstances suggest that the carrying value may exceed its recoverable value. This assessment involves judgement as to whether any of the impairment indicators in IFRS 6 have arisen during the year.

These indicators, which are individually considered for each exploration asset on at least an annual basis, are:

- the period for which the entity has the right to explore in the specific area has expired during the period, or will expire in the near future, and is not expected to be renewed.
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full, from successful development or by sale.

Further details of impairment charges recorded during the year are provided in note 10.

Zennor Petroleum Limited**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2020****4. EMPLOYEES AND DIRECTORS**

	31.12.20	31.12.19
	\$'000	\$'000
Wages and salaries	3,150	4,074
Social security costs	414	501
Other pension costs	252	242
	<u>3,816</u>	<u>4,817</u>

The parent company has no employees.

The average monthly number of Group employees during the year was as follows:

	31.12.20	31.12.19
Technical staff	9	9
Management	5	5
Administrative	2	2
	<u>16</u>	<u>16</u>

	31.12.20	31.12.19
	\$'000	\$'000
Directors' remuneration	997	1,348
Directors' pension contributions to money purchase schemes	83	80

The number of directors to whom retirement benefits were accruing was as follows:

Money purchase schemes	<u>3</u>	<u>3</u>
------------------------	----------	----------

Information regarding the highest paid director is as follows:

	31.12.20	31.12.19
	\$'000	\$'000
Emoluments	<u>362</u>	<u>488</u>

5. FINANCE INCOME AND COSTS

	31.12.20	31.12.19
	\$'000	\$'000
Unwinding of discount on long-term provision (note 20)	(2,568)	(1,716)
Finance fees and bank charges	(407)	(243)
Loan interest	(281)	(319)
Deposit account interest received	50	187
Lease interest	(18)	(16)
	<u>(3,224)</u>	<u>(2,107)</u>

Zennor Petroleum Limited**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2020****6. OPERATING PROFIT/(LOSS)**

The operating profit is stated after charging / (crediting):

	31.12.20	31.12.19
	\$'000	\$'000
Depreciation – property, plant & equipment (note 11)	16,915	17,368
Depreciation – data licenses (note 10)	-	357
Decrease/ (increase) in hydrocarbon stocks (note 13)	3,288	(3,966)
Auditors' remuneration – Group (i)	143	103
Auditors' remuneration – subsidiaries (i)	122	81
Intangible asset impairment (note 10)	1,987	4,619
Tangible asset impairment (note 11)	4,100	-
Prior year mismeasurement adjustment (ii)	2,520	-
Foreign exchange loss/(gain)	(999)	(1,212)
(i) The auditor's remuneration relates to fees for the audit of the Group and its subsidiaries. The 2020 fees include \$31k (2019: \$nil) in respect of the prior year audit.		
(ii) During the year the Group incurred a one-off non-recurring prior year cost in respect of historic ETAP and Mungo and Monan field operator hydrocarbon production mismeasurements in 2016 and 2017.		

7. TAX CREDIT ON LOSS/PROFIT ON ORDINARY ACTIVITIES**(a) Tax credit on loss/profit on ordinary activities**

	31.12.20	31.12.19
	\$'000	\$'000
The tax credit is made up as follows:		
Current tax:	-	-
Deferred tax:		
Increase /(decrease) to estimated recoverable amount of deferred tax asset	-	(666)
Origination and reversal of temporary differences	16,626	12,062
Prior year adjustment	61	1,883
Tax credit on loss/profit on ordinary activities	<u>16,687</u>	<u>13,279</u>

(b) Factors affecting tax charge

A reconciliation between tax expense and the product of accounting profit multiplied by the standard income tax rate for the year ended 31 December 2020 is as follows:

	31.12.20	31.12.19
	\$'000	\$'000
(Loss)/profit on ordinary activities before taxation	<u>(14,072)</u>	<u>12,694</u>
(Loss)/profit on ordinary activities multiplied by the standard ring fence rate of corporation tax in the UK of 40% / 19% (2019: 40% / 19%)	5,458	(5,454)
Prior year adjustment	61	1,883
Investment allowances recognised	3,557	8,969
Ring fence expenditure supplement	16,665	23,192
Non-deductible expenditures (incl. non qualifying depreciation)	(2,116)	(2,078)
Movement in losses and fields allowance recognised/ (not recognised)	(5,856)	(12,398)
Effect of different tax rate for subsidiaries using 30% corporation tax rate (2019: 30%)	(1,082)	(835)
Tax credit on loss/profit on ordinary activities	<u>16,687</u>	<u>13,279</u>

Zennor Petroleum Limited**Notes to the Consolidated Financial Statements - continued**
for the Year Ended 31 December 2020**7. TAX CREDIT ON LOSS/PROFIT ON ORDINARY ACTIVITIES - continued****(c) Deferred tax:**

	31.12.20	31.12.19
	\$'000	\$'000
Tax losses available	434,383	390,157
Abandonment liability	43,907	34,757
Investment allowance	37,401	32,247
Property and equipment	(191,056)	(166,055)
Derivative financial instruments	1,362	(77)
Adjustment to the estimated recoverable amount	(211,438)	(195,176)
	<hr/>	<hr/>
Deferred tax asset	<u>114,559</u>	<u>95,853</u>
		\$'000
At 31 December 2019		95,853
Credited to income during the year (note 7(a))		16,687
Movement in reserves due to change in FX rate		2,019
		<hr/>
At 31 December 2020		<u>114,559</u>

The increase in the deferred tax asset as compared to the prior year is attributable to the additional investment made during 2020 to the Group's Finlaggan development and the expectation of future taxable profits to be generated from that field and the continued operation of the Group's other producing assets. \$16.7m of the overall movement of \$18.7m in the deferred tax asset when compared to the prior year has been recognised as a gain through the income statement.

Although at the balance sheet date the Group had significant unused tax losses to offset against future profits, no deferred tax asset has been recognised against losses of \$419m (2019: \$425m), decommissioning provisions of \$28.2m (2019: \$28.6m) and investment allowances of \$374m (2019: \$275m), as it is not considered probable that there will be sufficient future taxable income over the expected life of the Group's current producing and development stage fields, to recognise the full amount of unused tax losses. The unrecognised losses have no fixed expiry date.

8. LOSS OF PARENT COMPANY

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The parent company's post-tax loss for the financial year was \$1.1m (2019 – loss \$1.5m); see note 17.

Zennor Petroleum Limited

Notes to the Consolidated Financial Statements - continued for the Year Ended 31 December 2019

9. PREPAYMENTS > 1 YEAR

	Group		Company	
	31.12.20	31.12.19	31.12.20	31.12.19
	\$'000	\$'000	\$'000	\$'000
Prepayments	<u>7,096</u>	<u>6,932</u>	<u>-</u>	<u>-</u>

On 17 October 2018 the group signed a £170m Senior Secured Term Loan Facility ("the Loan") with a syndicate of six banks to fund the Finlaggan Development through to scheduled first production. On 31 July 2020 the size of the Loan was increased to £185m and the maturity extended by one year (see note 21). The related arrangement fees have been accounted for as a long-term prepayment asset which is being amortised on a straight-line basis over the seven year expected life of the Loan.

10. INTANGIBLE ASSETS

Group	Data licences \$'000	Exploration expenditure \$'000	Totals \$'000
COST			
At 1 January 2020	1,125	8,857	9,982
Additions	-	5,149	5,149
Impairments	-	(1,987)	(1,987)
At 31 December 2020	<u>1,125</u>	<u>12,019</u>	<u>13,144</u>
AMORTISATION			
At 1 January 2020	1,125	-	1,125
Charge	-	-	-
At 31 December 2020	<u>1,125</u>	<u>-</u>	<u>1,125</u>
NET BOOK VALUE			
At 31 December 2020	<u>-</u>	<u>12,019</u>	<u>12,019</u>
At 31 December 2019	<u>-</u>	<u>8,857</u>	<u>8,857</u>

Intangible assets at 31 December 2020 relate to the Group's 100% interest in Licence P2350 (Leverett Discovery and Greenwell DH1), 100% interest in Licence P2367 (Rutford Prospect), 100% interest in Licence P2368 (Fisher Prospect), 45% interest in Licence P2397 (Courageous Discovery), 30% interest in Licence P2400 (Skerryvore Prospect), 30% interest in Licence P2402 (Ruvaal Prospect) and 20% interest in Licence P2452 (Murlach Discovery).

Intangible assets at 31 December 2020 also include the following licence interests that were awarded in 2020 from the UKCS 32nd Application Round: 100% interest in Licence P2520 (MacCulloch Discovery), 35% interest in Licence P2521 (Bowmore Discovery), 35% interest in Licence P2522 (Gilderoy Prospect), 35% interest in Licence P2523 (Starweb Prospect), 20% interest in Licence P2525 (Shirley Prospect), 50% interest in Licence P2533 (Christian Discovery), 30% interest in Licence P2535 (Teal West Discovery), 25% interest in Licence P2537 (Fay Prospect).

During the period the Group decided to withdraw from Licence P2381 (Manhattan). The associated write-off of past capitalised costs on this licence resulted in an exceptional impairment loss of \$2.0m. In addition, the Group expensed as incurred an additional \$0.4m, included within administrative expenses, in respect of costs incurred during the period on licences written off in 2019.

Data licences are amortised over their estimated useful life of three years.

Zennor Petroleum Limited

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2020

11. PROPERTY, PLANT AND EQUIPMENT

Group	RoU Lease Asset \$'000	Improvement to property \$'000	Oil & Gas Properties \$'000	Fixtures & Fittings \$'000	Comp' equip' \$'000	Totals \$'000
COST						
At 1 January 2020	339	186	506,106	82	801	507,514
Additions	-	-	70,920	-		70,920
Change in provisions (note 20)		-	1,625	-		1,625
Exchange differences	11	6	10,618	3	26	10,664
At 31 December 2020	<u>350</u>	<u>192</u>	<u>589,269</u>	<u>85</u>	<u>827</u>	<u>590,723</u>
DEPRECIATION AND IMPAIRMENT						
At 01 January 2020	127	176	58,242	82	792	59,419
Charge for year	132	3	16,771	-	9	16,915
Impairment	-	-	4,100	-	-	4,100
Exchange differences	4	6	-	3	26	39
At 31 December 2020	<u>263</u>	<u>185</u>	<u>79,113</u>	<u>85</u>	<u>827</u>	<u>80,473</u>
NET BOOK VALUE						
At 31 December 2020	<u>87</u>	<u>7</u>	<u>510,156</u>	<u>-</u>	<u>0</u>	<u>510,250</u>
At 31 December 2019	<u>212</u>	<u>10</u>	<u>447,864</u>	<u>-</u>	<u>9</u>	<u>448,095</u>

The Finlaggan asset accounted for \$62.1m of net oil and gas property additions during the year to 31 December 2020: being \$64.7m additions less \$2.6m reduction in decommissioning asset, and also accounted for \$10.6m of the impact of foreign exchange movements over the period.

Oil and gas property additions for the year include \$11.7m (2019: \$6.3m) capitalised financial costs incurred in 2020 in relation to the Finlaggan Loan facility signed on 17 October 2018 and as amended on 31 July 2020. This amount comprises accrued loan interest and commitment fee expenses, plus amortisation of longer-term prepayments (see note 9).

Zennor Petroleum Limited

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2020

11. PROPERTY, PLANT AND EQUIPMENT - continued

At 31 December 2020, impairment tests were performed for the oil and gas properties owned by the Group, comprising a 12.65% interest in the Mungo and Monan fields, an 8.97% interest in the Britannia field, a 20% interest in the Bacchus field, a 40% interest in the Cormorant East field and a 100% interest in the Finlaggan field (under development). The Group's annual external reserves and contingent resources audit (undertaken by ERC Equipoise Limited) as at 31 December 2020 and lower oil and gas market prices were considered an impairment trigger as reserves changes were identified for certain fields. This test indicated that for Mungo and Monan, Bacchus, Britannia and Finlaggan field interests the estimated recoverable amount, based on the value in use, is greater than the current net book value; thus, no impairment charge is required in the year for those assets. However, in respect of Cormorant East an impairment charge of \$4.1m was reflective of the lower reserves and earlier cessation of production that is now expected.

The impairment test on the oil and gas properties was performed using a real pre-tax discount rate of 14%, a \$60/bbl long term oil price and a \$6/mcf long term gas price. If (a) the discount rate had been 1% higher, or (b) the assumed longer term oil and gas prices (\$5/bbl and \$0.6/mcf) lower, it would have not generated any material impairment charge on any of these properties (each factor considered on a standalone basis).

Management's downside long term oil price is aligned to the average of a number of third party forecasts described as being consistent with achieving the 2015 COP 21 Paris agreements and, as noted above, using those prices would not have generated any additional material impairment charge.

Zennor Petroleum Limited

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2020

12. INVESTMENTS

Company	Shares in group undertakings \$'000
COST	
At 1 January 2020	169,640
Additions	10,275
Impairments	-
At 31 December 2020	<u>179,915</u>
NET BOOK VALUE	
At 31 December 2020	<u>179,915</u>
At 31 December 2019	<u>169,640</u>

The additions of \$10.3m relates to the Company's increased investments in Zennor Energy Limited during the year.

The Company's investments at the Statement of Financial Position date in the share capital of companies relate to the following subsidiaries:

Zennor Energy Limited

Registered office: First Floor, Hays House, Millmead, Guildford, Surrey GU2 4HJ

Nature of business: Holding company

Class of shares:	% holding
Ordinary	100.00

Zennor Oil & Gas Limited

Registered office: First Floor, Hays House, Millmead, Guildford, Surrey GU2 4HJ

Nature of business: Provision of technical services to oil & gas companies

Class of shares:	% holding
Ordinary	100.00

The Company's interest in the shares of Zennor Oil & Gas Limited is held via its 100% shareholding in Zennor Energy Limited.

Zennor Petroleum Limited

Notes to the Consolidated Financial Statements - continued **for the Year Ended 31 December 2020**

12. INVESTMENTS - continued

Zennor Exploration Limited

Registered office: First Floor, Hays House, Millmead, Guildford, Surrey GU2 4HJ

Nature of business: Oil & gas exploration

Class of shares:	% holding
Ordinary	100.00

The Company's interest in the shares of Zennor Exploration Limited is held via its 100% shareholding in Zennor Energy Limited.

Zennor Resources (NI) Limited

Registered office: The Soloist, 1 Lanyon Place, Belfast BT1 3LP, Northern Ireland

Nature of business: Oil & gas production

Class of shares:	% holding
Ordinary	100.00

The Company's interest in the shares of Zennor Resources (NI) Limited is held via its 100% shareholding in Zennor Energy Limited.

Zennor CNS Limited

Registered office: First Floor, Hays House, Millmead, Guildford, Surrey GU2 4HJ

Nature of business: Oil & gas production

Class of shares:	% holding
Ordinary	100.00

Zennor North Sea Limited

Registered office: First Floor, Hays House, Millmead, Guildford, Surrey GU2 4HJ

Nature of business: Oil & gas exploration, appraisal and development

Class of shares:	% holding
Ordinary	100.00

The Company's interest in the shares of Zennor North Sea Limited is held via its 100% shareholding in Zennor Energy Limited.

Zennor Pathway Limited

Registered office: First Floor, Hays House, Millmead, Guildford, Surrey GU2 4HJ

Nature of business: Oil & gas appraisal and development

Class of shares:	% holding
Ordinary	100.00

The Company's interest in the shares of Zennor Pathway Limited is held via its 100% shareholding in Zennor CNS Limited.

The following subsidiaries are exempt from the requirements of the UK Companies Act 2006 relating to the audit of individual accounts by virtue of s479A of the Act:

Zennor Energy Limited
Zennor Oil and Gas Limited
Zennor Exploration Limited
Zennor North Sea Limited

Zennor Petroleum Limited

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2020**

13. INVENTORIES

	Group	
	31.12.20	31.12.19
	\$'000	\$'000
Hydrocarbon stocks	1,255	4,543
Equipment stocks	1,116	0
	<u>2,371</u>	<u>4,543</u>

Hydrocarbon stocks consist of estimated value of physical oil stocks owned by the Group pending sale. Equipment stocks comprise two new subsea steel wellheads held for use in future drilling operations. The values as at 31 December 2020 are considered fully recoverable.

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31.12.20	31.12.19	31.12.20	31.12.19
	\$'000	\$'000	\$'000	\$'000
Current:				
Trade debtors	2,242	6,429	342	-
Amounts owed by group undertakings	-	-	-	4,691
Other debtors	1,789	3,290	42	-
VAT	774	762	23	41
Put option fair value (note 28)	4,434	216	-	-
Prepayments and accrued income	<u>3,351</u>	<u>2,350</u>	<u>96</u>	<u>39</u>
	<u>12,590</u>	<u>13,047</u>	<u>503</u>	<u>4,771</u>

Other debtors of \$1.8m represented a combination of un-invoiced oil and gas sales in December 2020 and working capital retained by third party operators of the group's field interests. Management considers that there are no unreasonable concentrations of credit risk within the Group. None of the above amounts are considered impaired or are past due. The directors consider the carrying amount of trade and other receivables approximates to their fair value.

15. CASH AND CASH EQUIVALENTS

	Group		Company	
	31.12.20	31.12.19	31.12.20	31.12.19
	\$'000	\$'000	\$'000	\$'000
Bank accounts	<u>27,308</u>	<u>40,577</u>	<u>241</u>	<u>3,870</u>

16. CALLED UP SHARE CAPITAL

Authorised, allotted, issued and fully paid:		Nominal value:	31.12.20	31.12.19
Number:	Class:		\$'000	\$'000
501,938	Ordinary	\$0.3128	157	157
202,773,446	Ordinary	\$1	<u>202,773</u>	<u>202,773</u>
			<u>202,930</u>	<u>202,930</u>

Zennor Petroleum Limited**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2020****17. RESERVES****Group**

	Retained earnings \$'000	Foreign currency translation reserve \$'000	Totals \$'000
At 1 January 2020	114,478	(5,682)	108,796
Profit for the year	2,615	-	2,615
Other comprehensive gain	-	7,448	7,448
At 31 December 2020	<u>117,093</u>	<u>1,766</u>	<u>118,859</u>

Company

	Retained deficit \$'000	Totals \$'000
At 1 January 2020	(32,938)	(32,938)
Loss for the year	<u>(1,133)</u>	<u>(1,133)</u>
At 31 December 2020	<u>(34,071)</u>	<u>(34,071)</u>

The other comprehensive gain for the Group reflects the currency translation adjustment from the rise in value of Sterling denominated tangible and intangible fixed assets during the year.

18. TRADE AND OTHER PAYABLES

	Group		Company	
	31.12.20 \$'000	31.12.19 \$'000	31.12.20 \$'000	31.12.19 \$'000
Current:				
Trade creditors	1,192	1,315	140	71
Amounts owed to group undertakings	-	-	11,558	8,182
Social security and other taxes	138	136	-	-
Accrued expenses	17,419	15,623	102	36
Lease obligations	83	125	-	-
Decommissioning liability	381	-	-	-
Oil collars mark-to-market	1,311	-	-	-
Gas swap mark-to-market	1,148	-	-	-
Deferred put option premium	<u>2,025</u>	<u>-</u>	<u>-</u>	<u>-</u>
Aggregate amounts	<u>23,697</u>	<u>17,199</u>	<u>11,800</u>	<u>8,289</u>

The stated value of the trade payables approximates their fair value. The decommissioning liability of \$0.4m is the Group's net share of estimated cost of plugging and abandoning the Kerloch suspended well scheduled for Q3 2021. The deferred premium liability is in respect of the cost of put options purchased in 2020 to hedge expected Group production in 2021, which will become payable on or before 31 December 2021.

Zennor Petroleum Limited

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2020

19. LEASING AGREEMENTS

The balance sheet shows the following amounts related to leases:

	Right of use asset
	31.12.2020
	\$'000
Office lease	<u>83</u>
Lease liabilities	
Current	83
Non-Current	<u>-</u>
	<u>83</u>

The lease liabilities relate to the Group's Guildford office premises.

20. PROVISIONS

	Decommissioning costs
	\$'000
At 31 December 2019	105,705
Unwinding of discount on provision (note 5)	2,568
Changes in estimates:	
Other (note 11)	1,625
Transferred to current liabilities (note 18)	(381)
Causeway change in estimate and exchange difference via P&L	<u>252</u>
At 31 December 2020	<u>109,769</u>

These decommissioning costs are expected to be incurred between 2023 and 2035. The provision has been calculated by applying inflation of 2% (2019: 2%) to the current prices of existing methods of decommissioning and discounted to the net present value using a rate of 2% (2019: 2.5%). If the inflation rate was increased/(decreased) by 1% this would increase/(decrease) the provision by \$14.7m/(\$13.0m) respectively. If the discount rate was increased/(decreased) by 1% this would decrease/(increase) the provision by \$12.9m/(\$14.9m) respectively.

The decrease in estimates as at 31 December 2020 relate to the latest updated decommissioning cost estimates prepared by the operators of these fields. An increase of \$3.3m in provision estimate has been driven by a change in GBP/USD FX rate over the period; future Sterling decommissioning costs have increased in US dollar terms as Sterling strengthened over the period.

Under the terms of the transaction to acquire the Britannia field interest, the previous owner agreed to retain the majority of the future decommissioning liabilities in respect of the Group's 8.97% net working interest up to a retained liability cap, as adjusted for inflation by an increase of 2% per annum from 31 March 2019 up to a maximum capped amount.

Zennor Petroleum Limited**Notes to the Consolidated Financial Statements - continued**
for the Year Ended 31 December 2020**21. LOANS**

	Group		Company	
	31.12.20	31.12.19	31.12.20	31.12.19
	\$'000	\$'000	\$'000	\$'000
Senior secured term loan > 1 year	221,114	169,088	-	-
Bank loan > 1 year	<u>6,636</u>	<u>6,062</u>	<u>-</u>	<u>-</u>
Aggregate amount > 1 year	227,750	175,150	-	-
Bank loan < 1 year	<u>-</u>	<u>8,040</u>	<u>-</u>	<u>-</u>
Aggregate amounts	<u><u>227,750</u></u>	<u><u>183,190</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

Senior secured term loan

On 17 October 2018 the Group signed a £170m Senior Secured Term Loan Facility ("the Loan") with a syndicate of six banks to fund the Finlaggan development through to first production. On 31 July 2020 the size of the Loan was increased to £185m and the maturity extended by one year. Total drawdowns as at 31 December 2020 were £162m (\$221m). The Loan has a maximum term of seven years and is secured against the Group's ownership interests in the Finlaggan, Mungo, Monan and Bacchus fields. Borrowing costs comprise interest charged on drawn amounts at a variable rate pegged to Sterling LIBOR plus a fixed margin and fixed rate commitment fees charged on available but undrawn loan amounts. The stated value of the loans approximates their fair value, but this is subject to change over time with movements in GBP/USD FX rate. Certain financial covenants are applied to the Loan up to and beyond the date of development completion; these are tested on a quarterly basis. Throughout 2020, all debt covenants were adhered to and regular communication was maintained with the bank syndicate. Repayment of the Loan is to be made in fifteen equal quarterly instalments over three and a half years starting on 1 April 2022.

The maximum borrowing base available under the Loan is determined periodically by independent estimate of the value of the Group's reserves from its ownership interests in the Finlaggan, Mungo, Monan and Bacchus fields, in combination with applicable loan life and field life cover ratios. As at the year end, the maximum borrowing base available was limited by the size of the Loan Facility.

Given the sole use of this facility is to fund Finlaggan development capital expenditure, all loan interest and fee costs incurred are capitalized during the period of field development (see note 11).

During 2020 the Group made four loan utilisations for a total of £34m, thus increasing the outstanding loan from £128m as at 1 January 2020 to £162m as at 31 December 2020. Since the year end, the Group has made two further utilisations for the total sum of £17m, increasing the amount of the outstanding loan as at 31 May 2021 to £179m. This loan will be repaid in full on the date of completion of the NEO acquisition.

Britannia term loan

On 1 July 2019 the Group signed a senior secured two-year term loan facility agreement with Nedbank to fund part of the net consideration payable on completion of the acquisition of an 8.97% interest in the Britannia field. On 30 September 2020 the term of this facility was extended by eighteen months. This term loan is secured against the Group's ownership interest in Britannia. Interest is paid quarterly in arrears at a variable rate pegged to Sterling LIBOR plus a fixed margin. As at 31 December 2020, the outstanding of this loan was £4.9m (\$6.6m). This loan will be repaid in full on the date of completion of the NEO acquisition.

Zennor Petroleum Limited

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2020

22. OTHER PAYABLES GREATER THAN 1 YEAR

	Group		Company	
	31.12.20	31.12.19	31.12.20	31.12.19
	\$'000	\$'000	\$'000	\$'000
Deferred put premium	<u>3,188</u>	<u>-</u>	<u>-</u>	<u>-</u>

A total of \$3.2m deferred put premium is payable by the Group in 2022.

23. CAPITAL COMMITMENTS

At the balance sheet date the amounts contracted in relation to ongoing projects but not provided for in the financial statements totalled \$49.9m (2019: \$68.2m). These commitments include \$35.3m in relation to contractual commitments associated with the ongoing Finlaggan development project and \$8.7m in respect of the Group's 20% working interest in the Bacchus South well drilled in Q1 2021.

24. CONTINGENT LIABILITIES

In the normal course of its UK oil and gas activities the Group is required to agree firm work commitments and obligations with both the UK Oil and Gas Authority under standard licence terms and licence operators under various joint operating agreements. At the balance sheet date the Group had contingent liabilities of \$11.8m (2019: \$9.1m), in excess of the liabilities and firm capital commitments as at the balance sheet date.

25. EVENTS SINCE THE BALANCE SHEET DATE

On 8 March 2021 Kerogen Capital signed an agreement to sell the entire Group to NEO Energy Upstream UK Limited ("NEO"), a growing UK oil company backed by the Norwegian investment firm HitecVision AS. This transaction has an effective date of 1 January 2021 and received regulatory consent in June 2021. The Group's staff will be integrated into the NEO business upon transaction completion which is expected in Q3 2021.

On 28 December 2020 the operator spudded the Bacchus South well as a potential extension to the Bacchus field. Since the balance sheet date this well was found to be a dry hole and the joint venture then decided to drill a side-track to the secondary target (Bacchus Far East). At the date of this report the results of the Bacchus Far East indicate the well has drilled a poor quality reservoir sequence that does not justify the costs of completing the well and tying it into the subsea systems; as such the well is being plugged and abandoned. As at 31 December 2020, \$2.0m of capitalised costs in relation to this well were included within property, plant and equipment.

26. ULTIMATE CONTROLLING PARTY

The Group's immediate parent company is Plutus Energy Investments Holding Limited, a company registered in Jersey. As at the date of approval of these accounts the Company and Group is ultimately controlled by Kerogen General Partner II Limited as general partner of Kerogen Energy Fund II L.P. and its parallel funds.

27. RELATED PARTY TRANSACTIONS

Details of the emoluments of the Company's directors, who are considered the key management personnel of the Group are included in note 4.

During the period Company paid \$41k of legal and professional fees on behalf of its immediate parent Plutus Energy Investments Holding Limited. These costs have been not recharged to the parent company in 2020 and are included in other debtors at 31 December 2020.

Zennor Petroleum Limited

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2020

28. FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders. The capital structure of the Group consists of equity of the Group (comprising issued capital, reserves and retained earnings), a £185m Senior Secured Term Loan Facility ("the Loan") with a syndicate of six banks, the specific purpose of which is to fund the Finlaggan development and a smaller separate bank loan related to the acquisition of an interest in the Britannia field (see note 21).

Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 2.

Categories of financial instruments

The Group's significant financial instruments are trade debtors (note 14), put options, collars and swaps (notes 14 and 18), cash and cash equivalents (note 15), trade creditors (note 18) and bank loans (note 20). With the exception of the put options, collars and swaps, which are held at fair value, all of the Group's financial instruments are held at amortised cost.

Financial risk management objectives

The Group monitors and manages the financial risks relating to its operations on a continuous basis. These include foreign exchange, interest rate, credit, liquidity and oil price risks.

The Group from time to time seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Foreign currency risk management

With most of its sales revenues currently earned in US dollars and most of its costs incurred in Sterling, the Group is exposed to currency risk. The Group's strategy is to broadly match the currency of funds held with the expected expenditures in those currencies, thus mitigating any potential currency risk over the short term. The Group does not currently use derivative financial instruments to manage its currency risk.

This policy has been applied in respect of the Group's £185m Finlaggan Loan facility; a Sterling loan was selected to match both the currency of the Finlaggan development expenditure (predominantly Sterling) and the currency of future natural gas sales revenues from which the loan will be repaid. During the development drilling phase the Group was able to use its US Dollar revenues to pay US Dollar denominated rig costs.

The carrying amounts of the Group's foreign currency denominated monetary assets (including cash) and monetary liabilities at the reporting date denominated in US dollars are as follows:

Zennor Petroleum Limited

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2020**

28. FINANCIAL INSTRUMENTS – continued

	Liabilities		Assets	
	31.12.20	31.12.19	31.12.20	31.12.19
	\$'000	\$'000	\$'000	\$'000
Sterling	23,214	17,052	24,034	41,707
Other	-	-	-	-
Total	23,214	17,052	24,034	41,707

Based on the value of financial assets and liabilities as at the year end, the impact on the Group's profit before tax of a 10% strengthening/ (weakening) of Sterling against the US Dollar would be a net increase/ (decrease) in profit of \$0.1m, with all other variables held constant.

Interest rate risk management

The Group is exposed to interest rate risk on the Finlaggan Loan and the Britannia Loan facilities. Although commitment fee expenses on undrawn loan amounts are fixed, the interest rate expense on loan utilisation is linked to the variable Sterling LIBOR reference. Based on the outstanding amount of these loans as at the year end, the impact on the Group's profit before tax of a 1% increase/ (decrease*) in Sterling LIBOR, over a period of one year, would be a decrease/ (increase) in cash flow of \$2.3m; (note: *albeit under the terms of these loan facilities the LIBOR component of the interest rate payable cannot be reduced below 0%). Although interest rates are expected to remain low in the medium term, the Group has the ability to use interest rate hedging contracts where considered economically viable and justified. The prevailing rates of interest received on the Group's Sterling and US Dollar cash balances are very low due to the current macro-economic environment.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties, being primarily large multinational oil and gas groups. The Group's exposure and the credit ratings of its counterparties are continuously monitored to ensure no material exposures arise.

Trade receivables consist of a small number of multinational oil and gas groups and hence there is a degree of credit risk. The credit risk on cash and cash equivalents and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The carrying amount of financial assets recorded in the financial statements represents the maximum exposure to credit risk for such balances.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and longer-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

Zennor Petroleum Limited**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2020****28. FINANCIAL INSTRUMENTS – continued**

The maturity profile of the Group's trade and other payables and borrowings as at 31st December 2020 was:

2020	USD \$m < 1 Mth	USD \$m 2 to 3 Mths	USD \$m 3 Mths to 1Yr	USD \$m 1 to 5 Years	USD \$m Total
Trade and other payables	1.3	17.4	5.0	-	23.7
Bank loans	-	-	-	227.8	227.8
	1.3	17.4	5.0	227.8	251.5

2019	USD \$m < 1 Mth	USD \$m 2 to 3 Mths	USD \$m 3 Mths to 1Yr	USD \$m 1 to 5 years	USD \$m Total
Trade and other payables	1.4	-	15.7	0.1	17.2
Bank loans	-	-	8.0	175.2	183.2
	1.4	-	23.7	175.3	200.4

Oil and gas price risk

A high proportion of the Group's current revenue is generated from the sale of its physical oil and gas production at prices linked to the average daily market spot prices. Thus, the Group is exposed to oil and gas price risk and, when appropriate, uses hedging arrangements to mitigate the potential impact of a significant future fall in oil or gas price.

At 31 December 2020 the Group has long oil put options, with a positive market value of \$0.9m (note 14), providing downside coverage for average daily production of 1,250 barrels of oil through fifteen month period to 31 March 2022 at an average floor price of \$38.15 per barrel. In conjunction with these hedge positions, the Group held oil collars with a negative market value of \$1.3m (note 18), capping the upside price in respect of average daily production of 530 barrels of oil through fifteen-month period to 31 March 2022 at an average level of \$51.50 per barrel.

At 31 December 2020, in respect of its current producing fields, the Group was long gas put options, with a positive market value of \$0.1m (note 14), providing downside coverage for average daily production of 19,000 therms gas through twenty-one month period to 30 September 2022 at an average floor price of 27.5p per therm. In addition, the Group had short gas swap positions with negative market value of \$1.1m (note 18) in respect of average daily production of 16,000 therms through fifteen-month period to 31 March 2022 on which the gas sales price is fixed at 40p per therm. In respect of the Finlaggan field, which is due to commence production in Q4 2021, the Group was long gas put options, with a positive market value of \$3.4m (note 14), providing downside coverage for average daily production of 195,000 therms gas for the twelve-month period from 1 October 2021 to 30 September 2022 at an average floor price of 35.2p per therm.

The oil and gas put options, oil option collars and gas swaps are recorded at fair value at each balance sheet date with movements in fair value recorded in the Income Statement. The Group does not apply hedge accounting for these instruments, all of which are expected to settle within 21 months of the balance sheet date based on contractual maturities. The fair value of the put options has been derived from third party mark-to-market valuations as at 31 December 2020 and represent Level 2 fair values within the IFRS 7 hierarchy.