

NSV Energy Ltd

Annual report and
financial statements

Year ended 31 December 2020

Registered number 06220464

Tailwind was established in 2016 and is a privately owned next generation oil and gas company continuing to grow a robust, value-driven portfolio of UK Continental Shelf (UKCS) assets.

Our agile approach focuses on working with partners to deliver technically advanced and cost-effective development and production of upstream assets. By combining years of industry knowledge and a fundamentally different approach to opportunity identification, we find and create value from the UKCS.

We are driven by our core values of teamwork, trust and transparency. This underscores our attitude to industry operations and business development. It is in this spirit that Tailwind forges strong partnerships across the oil and gas sector and value-chain.

Key Facts

Revenue

\$262.9 million

Production Daily Average

14.1 kboepd

EBITDA*

\$133.5 million

**EBITDA is reconciled to loss for the year of \$34.2 million on page 48*

2P reserves at 31 December 2020 (ERCE CPR)

43.1 mmboe

Available liquidity* at 31 December 2020

\$169.1 million

**defined as cash and committed facilities*

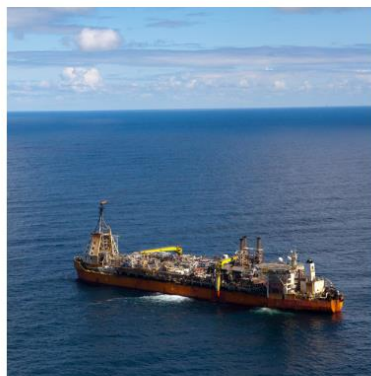
2P+2C reserves at 31 December 2020 (ERCE CPR)

70.6 mmboe

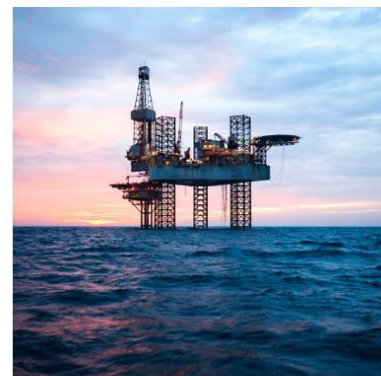
Our Portfolio



Conwy Field



Triton Area



Columbus Field

For our glossary of terms, please see page 47

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CEO's Review of 2020

2020 was dominated by the unforeseen global impact of Covid-19. In terms of impact to the UKCS, there was major upset to operations and external additional pressures due to the oil price crash of Q1 2020. The pandemic had a material effect on the industry across the board, affecting operators, the supply chain and support and ancillary services. Working with our partners and stakeholders, Tailwind moved quickly to ensure minimal interruption to operations whilst providing all necessary Covid protections and precautions to our staff and contractors.

Tailwind worked with Oil and Gas UK ('OGUK'), Oil and Gas Authority ('OGA'), local resiliency groups and our peer operators to ensure operational and business continuity across our assets. Similarly, we implemented a work-from-home scheme for our office-based activities that endured throughout 2020 without any compromise to the business. Additionally, our long-standing hedging strategy and programme insulated our balance sheet to ensure a robust financial position throughout the year meaning we did not need to adjust or compromise short or longer term objectives such as our capital investment or acquisition plans. It is pleasing to report that Tailwind did not furlough any staff or make use of any government-backed financial assistance scheme.

Tailwind conducted operations without any HSE incident which is a testament to our people and their diligence to their own safety, their colleagues and the greater environment. Our HSE record is exemplary but one that we do not take for granted. The safety of our staff and contractors is our highest priority and we continually review and challenge HSE precedents to ensure that our record remains fault free. Indeed, all of our staff responded to the challenges of 2020 to maintain full business and operational continuity whilst dealing with new ways of working and the challenges that invariably impacted personal lives due to the pandemic.

Our assets performed well over the course of the year, especially given the UKCS-wide manning restrictions taking crew numbers, at the height of the Covid outbreak, down to covering safety and integrity only. Both Triton and Douglas operators managed the situation extremely well with little impact on planned work programmes and with resultant good performance from our fields. The planned Triton shutdown was executed well given the scale of the operation, with a "walk-to-work" vessel supporting the shutdown providing over 100 personnel transfers every day. The work program was extended by two weeks to allow additional entries into topsides vessels, all aimed to increase production efficiency in the longer term. We saw the immediate benefit with uptime of > 95% on Triton in Q4 2020.

Production remains at the heart of Tailwind's business and a very solid performance was seen across all our fields. Triton, especially, contributed strongly towards the end of the year with the new Bittern B5 sidetrack coming onstream earlier than planned, producing at initial rates of over 7,500 bpd and with negligible water cut, above expectations. The well was completed 30 days ahead of planned duration and £5 million under budget. The Bittern B5 sidetrack more than offset the disappointment of the Q2 2020 well intervention campaign (Bittern B1 and A3z) that failed to deliver material production improvements.

Conwy field production performed close to budget with over 90% uptime. Conwy annual planned shutdown was completed ahead of schedule and without incident, reflecting the detailed planning and professional execution of Conwy operations by the team.

Overall, Tailwind exited 2020 producing at a rate of c.19,000 boepd, averaging 14,100 boepd over the year (2019: 15,900 boepd), accounting for all non-productive and offline days. This was a small decrease from 2019, but within 2% of our budgeted 2020 plan. Given the unprecedented challenge of Covid, this was an excellent result and unachievable without our dedicated and highly skilled teams of staff and contractors.

Translating the production revenue into financial results, our hedging programme provided robust insulation and defence of our balance sheet. Tailwind's 2020 revenue was \$262.9 million which is a tremendous result relative to what would have been achieved in an unhedged scenario. This translated into a final EBITDA number of \$133.5 million. We met our operating expenditure targets although our capital programme was impacted by Covid through deferments, largely related to the delayed drilling of the Columbus well which was re-scheduled for Q2 2021. This was a result of the Forties Pipeline System shutdown moving back one year, which resulted in Shell delaying their Shearwater shutdown and Arran project tie-in. The Columbus project is being executed as an integrated project with Arran, so was equally affected. The well is being drilled in Q2 2021 and is expected to be on stream in Q4 2021.

CEO's Review of 2020 (continued)

The Group also made some notable achievements in 2020. Our Evelyn development project plan was submitted to regulators for Field Development Plan ('FDP') approval and the Board also approved the Gannet-E expansion project. The Evelyn FDP was approved on 28 February 2021.

We completed our Reserves Based Lending ('RBL') bi-annual redeterminations in December 2020 with positive reserves bookings on both the Evelyn and Gannet-E fields, along with additional volumes from the successful Bittern B5 sidetrack.

2020 also accelerated the conversation and awareness of carbon emissions and the transition to Net Zero. Throughout the year, Tailwind gained in its understanding of both the requirements of the UKCS operators to respond to the challenge of the energy transition and how we, as a company, can assist toward that aspiration. We have been at the heart of these discussions involving industry, regulatory and central government bodies which eventuated in the publishing of the Energy White Paper in December 2020 and the expected Transition Deal that was to follow with specific measures, targets and support to help achieve the overall goal of Net Zero in the UK by 2050. Tailwind will publish its first Environmental, Social and Governance (ESG) Report in mid-2021 to outline our current position and future choices we will make in these areas.

I reflect on 2020 as one of unprecedented challenge for our company, our industry and the world as a whole. We responded to the change in circumstance – both operationally and personally – with typical resiliency and positivity that are hallmarks of 'Tailwind people' and one that I am immensely proud of.

We look forward to 2021 as an 'investment year' with the execution of the Columbus, Evelyn and Gannet E expansion projects. These organic opportunities were all identified during the original acquisition due diligence, and is testament to our strategy to maximise value others may not have seen or wish to invest in.

In addition to the investments in our existing assets, two further acquisition opportunities were identified for which Sale and Purchase Agreements (SPAs) have been signed during 2021. These new assets in the UKCS will allow Tailwind to continue to deploy its strategy of exploiting organic production and near-term reserves growth opportunities whilst bringing further diversification to the Tailwind portfolio (see further detail in the Directors' report). Further, an SPA with ENI has been signed in respect of Conwy, which is nearing decommissioning, for the disposal of the Conwy field during 2021. The field was nearing the end of its economic life and the disposal is in line with Tailwind's strategy. The above transactions are all subject to statutory, partner, regulatory and government approvals and are expected to complete within 2021.

By the end of 2021, I hope to report on another successful year of continued production from Triton, new cashflow streams from Columbus and the two new assets and a positive result in our key Evelyn well. Assuming success in these projects, Tailwind will move towards the next level of very strong cashflow and value accretion enabling the company to continue to grow in the UKCS where we believe there is still a rich vein of opportunities.

Tailwind has executed on its business model since inception and this strategy will continue to serve the company well as we move forward. Our strong partnership with Mercuria will assist us in looking forward to growth via acquisition that will enable further portfolio diversity whilst keeping future liabilities and financial exposure to a minimum. These fundamental strategies are set to continue to position the company well into 2021 and beyond.

Steve Edwards
Chief Executive Officer
27 May 2021

NSV Energy Limited

Strategic Report

The directors present their strategic report of NSV Energy Limited (“NSV”, or the “Company”) and its subsidiaries Tailwind Energy Ltd and Tailwind Mistral Ltd (the “Group” or “Tailwind”) for the year ended 31 December 2020. The Company is a private limited company by shares and the Company and Group are domiciled and incorporated in the UK under the Companies Act 2006 and registered in England and Wales. The registered office address of all members of the Group is 62 Buckingham Gate, London, SW1E 6AJ, United Kingdom.

Principal activities

The principal activity of the Group and the Company is the acquisition, exploration, development and production of oil and gas reserves on the UKCS. Tailwind has completed its second full calendar year of asset ownership following two material acquisitions of UK Continental Shelf (UKCS) assets in the second half of 2018. These assets constitute a high-quality portfolio of established UK oil and gas development and producing assets with opportunities for reserves growth, cost reduction and life extension.

The Group's interests in significant joint arrangements are listed below:

Fields	Type	Ownership interest	Ownership interest
		2020	2019
Bittern	Production	64.63%	64.63%
Guillemot W/NW	Production	10.00%	10.00%
Gannet E*	Production	100.00%	100.00%
Belinda *	Development	100.00%	100.00%
Evelyn *	Development	100.00%	100.00%
Conwy *	Production	100.00%	100.00%
Columbus	Development	25.00%	25.00%
Valkyrie	Decommissioning	25.00%	25.00%
Arthur	Decommissioning	30.00%	30.00%

* Operated by the Group

Review of the business

The main challenge to business in 2020 was the coronavirus pandemic and, following the national lockdowns, Tailwind responded by asking staff to work from home for all office-based positions with limited office access. Tailwind also took steps across its operations to reduce offshore activities and ensure the working environment had adequate Covid-related safety measures in place to keep employees and contractors safe.

Operationally, during 2020, Tailwind focused on maintaining strong production efficiency on its existing producing fields as well as successfully executing the drilling of a sidetrack on the Bittern field, which was completed in October 2020. Tailwind's average production decreased by 11.4% from 15.9 kboepd in 2019 to 14.1 kboepd in 2020, reflecting an extended, productive Triton shutdown and the decline in the Conwy field which is moving closer to cessation of production, but largely offset by a strong performance from the Bittern field following the drilling of the sidetrack. The Group is developing the Evelyn field located in the Triton asset cluster, with FDP approval obtained on 28 February 2021 and first oil expected in Q4 2022.

The COVID-19 pandemic also resulted in a deterioration of the macro-economic environment for the oil and gas industry. This was caused by persistent global oversupply and a reducing demand due to the worldwide economic impact of coronavirus. This in turn led to a sharp decline in commodity prices during 2020, with oil prices only partially recovering towards the end of 2020. For the year, Brent crude averaged \$42 per barrel compared to \$64 per barrel in 2019.

Despite this, Tailwind is in a very healthy financial position having entered the year from a position of financial strength with a resilient balance sheet and portfolio, including a fixed price marketing agreement and ISDA options (collars) for part of our hydrocarbon production.

Revenue for 2020 was \$262.9 million (2019: \$367.2 million) and EBITDA for 2020 was \$133.5 million (2019: \$222.2 million), reflecting the materially lower realised prices and lower production in 2020, with the Group's fixed price contract arrangement and hedging programme resulting in realised oil price of \$56.70 per barrel (2019: \$66.65 per barrel).

Strategic Report (continued)

Review of the business (continued)

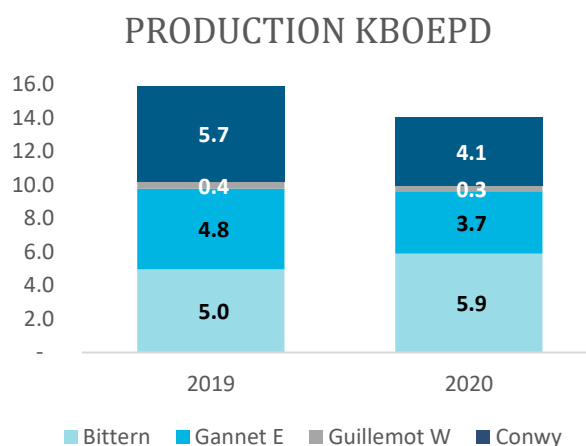
The Group had a loss before tax of \$43.0 million in 2020 (2019: profit before tax of \$31.3 million) as a result of the low oil prices and an impairment charge on oil and gas assets of \$60.3 million driven by the fall in future oil price forecasts and bringing forward the cessation of production on the Conwy field from 2023 to 2021.

The Group generated unlevered free cash flow of \$32.0 million (2019: \$195.9 million) and had liquidity (cash and committed facilities) of \$169.1 million (2019: \$213.1 million). The Group is in a net current asset position at the year end and the Group's adjusted effective current ratio remains very robust. The adjusted effective current ratio assumes a draw-down of any undrawn committed funding facilities as shown in the table below.

At 31 December 2020		Current Ratio	Adjustment for undrawn loan	Adjusted Effective Current Ratio
Current Assets	\$'000	144,365	106,600	250,965
Current Liabilities	\$'000	(49,090)	-	(49,090)
Current Ratio	%	294%		511%

Operations

- **Group production** was 5.2 mmbœ in 2020 (2019: 5.8 mmbœ). This represented c. 14.1 kboepd (2019: c. 15.9 kboepd).



Please refer to the CEO review for further details on operations during the year.

Reserves and Resources

- At the end of 2020, the Group had a net proven and probable (2P) reserves of 43.1 mmbœ (ERCE CPR) compared to 40.7 mmbœ at the end of 2019. This gives a net 2P increase of 2.4 mmbœ, comprising a 7.6 mmbœ increase in future production volumes after subtracting 2020 production of 5.2 mmbœ.

Strategic Report (continued)

Principal risks, uncertainties and mitigation strategies

The key risks facing the Group are:

- **Hydrocarbon Prices:** the Group's portfolio is exposed to oil prices. The Group engaged in a robust programme of mitigating its exposure to Brent oil prices via fixed price marketing agreements and ISDA options. As of 31 December 2020, the Group had fixed price contracts in excess of 54% of its 2021-2023 forecast production (three years) (2019: 45% of its 2020-2022 production).
- **Field Production:** the Group is exposed to production performance, primarily on its two key fields: Bittern and Gannet E. The range of uncertainty is captured in the business planning approach and insurance programmes which Tailwind manage.
- **The external business environment** is a source of emerging risks and uncertainties for the industry. Intensifying focus on climate change, shifting sentiment towards the E&P industry, changes in geopolitical landscape and the COVID-19 pandemic are some of the examples of factors that add to uncertainty of doing business. We consider such risks and factor them into our plans. We cannot completely influence the outcome of such risks, but we have prepared for them via an insurance programme and business continuity planning.

For a further discussion on these risks and uncertainties refer to note 22.

Insurance

Tailwind undertakes a significant and appropriate range of insurance programmes to minimise the risk to its operational and investment programmes, which includes property damage, pollution and operability and business interruption insurance. Our Operability Insurance (OI) policy provides a unique type of insurance for our revenues, by removing accidental physical damage and waiting period scopes from standard policies available in the market.

Key performance indicators (KPIs)

The Group's activities consist of acquisition, development and commercialisation of hydrocarbon reserves in the UK Continental Shelf. The Group's KPIs are shown below and are closely monitored by management.

		Year ended 31 December 2020	Year ended 31 December 2019
Oil and gas production	kboepd	14.1	15.9
Revenue	US \$ million	262.9	367.2
EBITDA	US \$ million	133.5	222.2
HSE incidences		None	None

Revenue and EBITDA in 2020 are lower as the current year reflects the impact of the materially lower prices in 2020 as well as lower production. Please refer to CEO review and the operations section of the strategic report for more information on our oil and gas production.

Strategic Report (continued)

Health, Safety and Environment

The Group continues to recognise and act on its responsibilities towards Health, Safety and the Environment (HSE) with a key focus on ensuring that all Tailwind operations are executed in a safe and environmentally responsible manner. HSE is embedded in all operational readiness assurance planning activities and the Group works in conjunction with its contractors to ensure that all HSE risks are identified and managed appropriately. HSE performance of Tailwind joint venture partners are monitored to assure that all Group partners meet acceptable HSE standards.

HSE performance on Tailwind operated assets in 2020 was excellent with no environmental events and zero Lost Time Incidents (LTI).

Environment, Social and Governance

Environment

Tailwind takes a shared approach to caring for the environment. We work within and through an independently verified Environmental Management System, which has been developed to comply with ISO 14001. Tailwind participates in the EU Emissions Trading System through the operators of our production facilities, to compensate for the emissions that are produced due to our activities.

As well as complying with all applicable environmental and international standards, we actively support the global energy transition through maximizing recovery from existing assets and our decommissioning work. We acknowledge and support the need to transition from the existing hydrocarbon economy to limit the effects of climate change on society. Tailwind is a contributing member of bodies such as OGUK that has a defined plan and timeline for the UK Oil and Gas Industry to help achieve the UK Government target of net-zero carbon by 2050.

Social

Tailwind is an equal opportunity employer committed to diversity and inclusion. We believe that good corporate citizenship requires a meaningful commitment and contribution to the communities in which we live and work, and our staff, based on our core values of teamwork, trust and transparency.

Governance

Tailwind works proactively with regulators, legislators, and partners to ensure we adhere to the strictest standards of corporate governance and risk management. Our Code of Conduct is a living document that defines the behaviour required from our employees, contractors, and partners. We actively encourage dialogue with OGA, BEIS/OPRED to ensure we are continually meeting expectations of our stakeholders. This interaction also allows us to update regulators and policy makers and to optimize measures for the continued growth of the basin.

Please refer to further information about Tailwind's ESG reporting at www.tailwind.co.uk.

Strategic Report (continued)

Streamlined Energy and Carbon Reporting (SECR)

Tailwind has equity in the Bittern, Guillemot West/North West and Gannet E fields in the UKCS that export oil and gas via the Triton FPSO and the Conwy field that exports oil via the Douglas platform installation. The method of reporting by equity is the most appropriate for Tailwind’s group of offshore assets.

As this year is the first time that this data has been reported, 2020 will be treated as the ‘Base year’ against which future years’ data will be compared. An ‘intensity measurement’ is also calculated based on Kg of CO2 emitted per barrel of equivalent produced. Conversion of energy usage in kwh to emissions of CO2 has been taken from the UK Government conversion factor methodology document. Tailwind participates, indirectly, in the UK Emissions Trading Scheme (UK-ETS) via our operating partners Dana Petroleum and ENI and combustion, vented and fugitive emissions data were obtained from EU-ETS and Environmental and Emissions Monitoring System (EEMS) reported data.

Energy and Emissions Reporting

Scope 1 Direct Emissions: (emissions are direct emissions as a result of Tailwind’s operations)		
Offshore Combustion	tCO ₂ e	183,269
	MWh	472,220

Note: This includes emissions from combustion for energy, flare and direct hydrocarbon emissions from Tailwind's operations.

Scope 2 Indirect Emissions: Grid sourced electricity consumed by the organisation's onshore office facilities		
Grid-sourced Electricity	tCO ₂ e	9,230
	MWh	46.61

Note: Onshore energy is provided to the London office via the local municipal supplier which comes from a 100% renewable source

Emissions Summary		
Total Emissions	tCO ₂ e	192,499
	MWh	472,266
Total Carbon Emissions Intensity Ratio	kg CO ₂ e/boe	34.8

Tailwind both encourage and support the energy efficiency initiatives of the operators to reduce emissions. The following initiatives will have a positive impact on Tailwind’s emissions in 2020 and the future.

Emissions saving opportunities for the Triton FPSO have been investigated and a range of opportunities have been agreed. Activities such as work on the flare and optimisation of existing compression facilities are planned to reduce emissions on Triton.

Strategic Report (continued)

Section 172 Statement Companies Act 2006

This section of the Strategic Report describes how the directors have had regard to the matters set out in section 172(1) of the Companies Act 2006. The section specifies that the Directors must act in good faith when promoting the success of the Group and in doing so have regard (amongst other things) to:

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

In discharging our section 172 duties, we have regard to the factors set out above. We also have regard to other factors that we consider relevant to the decision being made.

The Board of Directors is collectively responsible for the decisions made towards the long-term success of the Group and how the strategic, operational and risk management decisions have been implemented throughout the business is detailed in the preceding sections of this Strategic Report. We acknowledge that every decision we make will not necessarily result in a positive outcome for all of our stakeholders. By considering the Group's mission, vision and values together with its strategic priorities and having a clear process in place for decision making, we do, however, aim to make sure that our decisions are consistent and predictable.

- Employees

Our employees are a significant asset to our business. Tailwind's offices operate on an open-door policy and, due to our flat structure, employees are encouraged at all levels to directly feedback to management and Directors. Due to the Covid pandemic, staff were asked to work from home for all office-based positions with limited office access and close communication with all staff has been maintained throughout this period through a combination of monthly online business update meetings during which key business issues are discussed and the employees updated on progress towards corporate targets, weekly functional online meetings and one to one calls. The monthly and weekly meetings are attended by the Directors and facilitate two-way communications with employees. Employees are encouraged to submit suggestions which include where we can improve safety, offshore working, and training opportunities. These have proven to be very effective and the business has functioned well throughout the Covid pandemic.

- Partners and suppliers

The Board of Directors acknowledges that a strong business relationship with partners, suppliers and customers is a vital part of the growth. Tailwind works closely with joint venture (JV) partners to deliver solutions for asset safety, integrity, and field life. We collaborate with JVs to develop risk mitigation strategies for any delays or instances of underperformance in our operations. We engage regularly with operators and partners on day-to-day operations to share knowledge, offer support and use our influence to establish best practices. On a more formal basis, senior management attend JV committee meetings on at least a quarterly basis to participate in material decisions.

The Directors uphold ethical business behaviour across all of the Group's activities and have established a Code of Conduct which requires comparable business practices from partners and suppliers doing business with the Group. We treat suppliers equally, without discrimination and also ensure that creditors are paid within the contracted terms.

Regular meetings are held with all members of the Group's bank syndicate. These include both quarterly formal presentations as well as ad hoc business updates – historically in person, but online during the Covid pandemic.

- Community and environment

Care of the community and the environment in which the Group works is a business priority. We adhere to all applicable legislation. For further details, please see the Environment, Social and Governance section of the Strategic Report and www.tailwind.co.uk for our Health & Safety Policy and Environmental Care Policy.

Strategic Report (continued)

Section 172 Statement Companies Act 2006 (continued)

- Maintain a reputation for high standards of business conduct

The UK in general, and UK offshore sector in particular, are highly regulated business environments and the UK is widely considered to be one of the most transparent and well-regulated E&P markets globally. We build strong, transparent relationships with the government and regulatory authorities. We adhere to all relevant legislation in the areas where we have our operations and disclose all necessary information. We are also a member of the Oil & Gas UK and the Association of British Independent Oil Exploration Companies (BRINDEX) which works with the OGA and UK Government on issues that impact the oil and gas industry. We are registered with FPAL, the world's leading oil and gas supply chain database to identify and select suppliers with the same high standards of business conduct to us.

- Shareholders

The Group is privately owned by the Directors and Mercuria, a global energy and commodity group. The Directors are deeply involved in all key decisions and formal board meetings are supplemented by ad hoc communications as required. Members' rights are protected by a shareholders' agreement between them.

Future developments

Please refer to the CEO 2020 review for details on future developments.

On behalf of the Board

Jacques J Tohme
Director
27 May 2021

Directors' Report

The Directors present their annual report and the audited financial statements of NSV Energy Limited (the "Group" or "Company") for the year ended 31 December 2020.

Directors

The Directors who served the Company during the period 1 January 2020 up to the date of the financial statements were as follows:

- Dr S C Edwards
- Dr D P Freeman
- J J Tohme
- T Z H Ujejski
- D K Gallagher

Results and dividends

The Group's loss for the year after tax amounted to \$34.2 million (2019: profit of \$47.3 million). Dividends of \$71.8 million were declared for the year ended 31 December 2020 (2019: \$nil).

Financial instruments

The Group finances its activities with a combination of loans and cash. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Group's operating activities.

Financial instruments can give rise to foreign currency, interest rate, credit, price and liquidity risk. The Group continued to enter into a combination of fixed-price physical sales contract and cash-settled financial commodity derivatives to manage the price risk associated with the Group's future underlying oil and gas revenues. Information on these risks is set out above in the Strategic Report and note 22 to the financial statements. During the year, the Group entered into commodity swap contracts to manage the price risk associated with the Group's underlying oil and gas revenues and entered into currency swap contracts to manage risk arising from exchange rate movements in US Dollar against Pounds Sterling.

Directors' Indemnities

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

Post balance sheet events

On 26 March 2021, the Company's subsidiary, Tailwind Mistral Ltd entered into a sales and purchase agreement with ENI UK Limited for the disposal of the Conwy field to ENI with an expected effective date of 1 July 2021, subject to certain conditions precedent, including stakeholder consents, regulatory and government approvals.

On 31 March 2021, the Company's subsidiary, Tailwind Energy Ltd entered into a sales and purchase agreement with Decipher Holdco Limited for the acquisition of Decipher Energy Limited, with an effective acquisition date of 1 January 2021. The acquisition will add the Orlando producing field and the Senna and Mansell exploration and evaluation assets to Tailwind's portfolio, allowing the Group to continue to deploy its strategy of exploiting organic production and near-term reserves growth opportunities. The transaction has not yet completed and is subject to certain conditions precedent, including regulatory and government approvals.

On 21 May 2021, the Company's subsidiary, Tailwind Energy Ltd entered into a sales and purchase agreement for the acquisition of BP's entire working interest in the Shearwater field, effective 1 January 2021. BP holds a 27.5% non-operated interest in Shearwater. The transaction, which is subject to partner and regulatory approvals, furthers Tailwind's growth strategy by adding another high-quality producing asset to our portfolio.

Future developments

Please refer to the CEO 2020 review for details on future developments.

Directors' Report (continued)

Other

There were no political contributions made by the Group during the year (2019: nil). Please refer to Section 172 statement in the Strategic Report for more details on our engagement with suppliers, customers and others. Please refer to the Streamlined Energy and Carbon Reporting in the Strategic Report for more details on our energy and carbon reporting.

Directors' responsibilities statement

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 year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Accounting Standards in conformity with the requirement of the Companies Act 2006 and have also elected to prepare the parent company financial statements in accordance with International Accounting Standards in conformity with the requirement of the Companies Act 2006. 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 year. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and estimates that are reasonable;
- provide additional disclosures when compliance with the specific requirements in International Accounting Standards in conformity with the requirement of the Companies Act 2006 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state whether the Group and Company financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirement of the Companies Act 2006; and
- make an assessment of the Group's and Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the persons who is a Director at the date of approval of this report confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's and Company's performance, business model and strategy.

Directors' Report (continued)

Directors' responsibilities statement

Going concern

The Group closely monitors and carefully manages its liquidity risk. Cash forecasts are regularly produced, and sensitivities run for different scenarios including, but not limited to, changes in commodity prices and different production rates from the Group's producing assets. Given the total available liquidity as at 31 December 2020 of \$169.1 million comprising our cash balance of \$62.5 million and \$106.6 million of available and undrawn headroom under the RBL facility and a Junior Facility Agreement with Mercuria, the consolidated accounts have been prepared on a going concern basis.

The going concern basis is supported by future cash flow forecasts, reflecting forecast production consistent with our Board approved plans, including the transactions disclosed in the Post Balance Sheet Events section of the Directors Report and note 26, which project the Group's available liquidity and compliance with covenants through to 30 June 2022.

In reaching the conclusion that the going concern is appropriate, we have stress tested future cash flow forecasts and covenant compliance for the Group to evaluate the impact of plausible downside scenarios. These include scenarios that reflect short term oil prices of \$40/bbl for the going concern period as well as scenarios that consider a 30% reduction in production to cater for unforeseen production outages.

Following this review, the directors are satisfied that, after taking into consideration the current macroeconomic situation and uncertainty arising from the COVID-19 pandemic, the Company and the Group have adequate resources to continue to operate and meet their liabilities as they fall due for the foreseeable future, a period considered to be at least 12 months from the date of signing these Financial Statements. For this reason, they continue to adopt the Going Concern Basis for preparing the Financial Statements.

Statement of Disclosure to Auditor

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all steps required to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

Approved by the Board and signed on its behalf by

Jacques Tohme

Director

27 May 2021

Independent Auditor's Report to the member of NSV Energy Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of NSV Energy 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 (loss)/profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- 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 and loss and other comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated and company cash flow statements; and
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

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 NSV Energy 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 framework 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 UK Companies Act, pensions legislation, tax legislation and the statutory framework determined by the Oil and Gas Authority (OGA); and
- 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 include the group's operating licence and environmental regulations, and anti-bribery and corruption legislation.

We discussed among the audit engagement team including relevant internal specialists such as tax and valuations specialists 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 the group's oil and gas assets: we challenged the key assumptions adopted in determining the recoverability of the assets, including forecast oil prices, production profiles and discount rates, and the controls over those assumptions. We corroborated the assumption against market data and / or specialists reports and, where available, benchmarked against peer groups.

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.

Independent Auditor's Report to the members of NSV Energy Limited

Report on other legal and regulatory requirements

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 and legal counsel 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 and reviewing correspondence with HMRC, the licensing authority and any other relevant regulatory authorities.

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.

Ivan Boonzaaier, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK

27 May 2021

NSV Energy Limited

Consolidated Statement of Profit and Loss and Other Comprehensive Income for the year ended 31 December 2020

		Year ended 31 December 2020	Year ended 31 December 2019
	Notes	\$'000	\$'000
Revenue	5	262,878	367,205
Cost of sales		(204,212)	(287,576)
Gross profit		58,666	79,629
Exploration and evaluation expenses		(642)	(1,096)
Other cost	13,15	(16,904)	(11,409)
Impairment charge	11	(60,300)	-
Gains on acquisition	4	-	7,760
General and administrative expenses		(14,191)	(17,363)
Operating (loss)/profit	6	(33,371)	57,521
Finance income and other gains	8	3,722	740
Finance costs, other finance expense and losses	8	(13,319)	(26,927)
(Loss)/profit before taxation		(42,968)	31,334
Taxation	9	8,777	15,927
(Loss)/profit for the year		(34,191)	47,261
Other comprehensive results for the year, net of taxation		-	(2,554)
Total comprehensive (loss)/income for the year, net of taxation		(34,191)	44,707

All results have been derived from continuing operations.

NSV Energy Limited

Consolidated and Company Balance Sheets

as at 31 December 2020

	Note	Group		Company	
		31 December 2020 \$'000	31 December 2019 \$'000	31 December 2020 \$'000	31 December 2019 \$'000
Assets					
Non-current assets					
Exploration and evaluation assets	10	27,579	19,307	-	-
Property, plant and equipment	11	533,000	635,922	-	-
Investment in subsidiary	12	-	-	2	2
Other financial assets	13	3,382	4,448	-	-
Deferred tax	9	85,103	76,326	-	-
Trade and other receivables	15	12,465	30,112	-	-
		661,529	766,115	2	2
Current assets					
Inventories	14	11,925	4,814	-	-
Trade and other receivables	15	53,789	45,208	5,081	5,081
Other financial assets	13	16,180	2,646	-	-
Cash and cash equivalents	16	62,471	142,802	38,748	6
		144,365	195,470	43,829	5,087
Total assets		805,894	961,585	43,831	5,089
Current liabilities					
Trade and other payables	17	43,097	65,725	5	5
Provisions	18	-	20,484	-	-
Other financial liabilities	13	5,993	-	-	-
		49,090	86,209	5	5
Non-current liabilities					
Provisions	18	108,483	91,806	-	-
Interest bearing loans	19	274,347	303,632	-	-
		382,830	395,438	-	-
Total Liabilities		431,920	481,647	5	5
Net assets		373,974	479,938	43,826	5,084
Equity					
Called up share capital	20	-	-	-	-
Share premium	20	-	-	-	-
Currency translation reserve		(3,163)	(3,163)	-	-
Retained earnings		377,137	483,101	43,826	5,084
Total equity		373,974	479,938	43,826	5,084

The Company reported a profit for the year ended 31 December 2020 of \$110.5 million (2019: \$63 thousand).

The financial statements of NSV Energy Limited, company number 06220464, were approved by the Board of Directors and authorised for issue on 27 May 2021. They were signed on its behalf by:

Jacques J Tohme
Director

NSV Energy Limited

Consolidated Statements of Changes in Equity

for the year ended 31 December 2020

Group	Share capital \$'000	Share premium \$'000	Currency translation reserve \$'000	Retained earnings \$'000	Total \$'000
At 1 January 2020	-	-	(3,163)	483,101	479,938
Loss for the year	-	-	-	(34,191)	(34,191)
Other comprehensive loss	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(34,191)	(34,191)
Dividends	-	-	-	(71,773)	(71,773)
At 31 December 2020	-	-	(3,163)	377,137	373,974
	Share capital \$'000	Share premium \$'000	Currency translation reserve \$'000	Retained earnings \$'000	Total \$'000
At 1 January 2019	-	5,000	(609)	430,840	435,231
Profit for the year	-	-	-	47,261	47,261
Other comprehensive loss	-	-	(2,554)	-	(2,554)
Total comprehensive (loss)/income for the year	-	-	(2,554)	47,261	44,707
Capital reduction	-	(5,000)	-	5,000	-
At 31 December 2019	-	-	(3,163)	483,101	479,938

The prior year currency translation reserve arose following the change in the Company's subsidiary functional currency from Pounds Sterling to US Dollars from 1 July 2019 and the change in presentational currency for the year ended 31 December 2019.

NSV Energy Limited

Company Statement of Changes in Equity for the year ended 31 December 2020

Company	Share capital \$'000	Share premium \$'000	Currency translation reserve \$'000	Retained earnings \$'000	Total \$'000
At 1 January 2020	-	-	-	5,084	5,084
Profit for the year and total other comprehensive income	-	-	-	110,515	110,515
Dividend	-	-	-	(71,773)	(71,773)
At 31 December 2020	-	-	-	43,826	43,826
	Share capital \$'000	Share premium \$'000	Currency translation reserve \$'000	Retained earnings \$'000	Total \$'000
At 1 January 2019	-	5,000	-	21	5,021
Profit for the year and total other comprehensive income	-	-	-	63	63
Capital reduction	-	(5,000)	-	5,000	-
At 31 December 2019	-	-	-	5,084	5,084

During the prior year, the Company completed a reduction of its share capital, whereby (i) on 22 February 2019, the nominal value of each issued ordinary share in the capital of the Company was reduced from £0.01 to £0.005 each and (ii) on 22 March 2019, the entire amount standing to the credit of the Company's share premium account was cancelled. The distributable reserves created by the reduction of capital amount to \$5 million.

NSV Energy Limited

Consolidated and Company Cash Flow Statements for the year ended 31 December 2020

		Group		Company	
		Year ended 31 December 2020	Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2019
	Note	\$'000	\$'000	\$'000	\$'000
(Loss)/profit before tax		(42,968)	31,334	110,515	67
Adjustments to reconcile (loss)/profit before tax to net cash flows:					
Depreciation, depletion and amortisation	11	106,595	164,474	-	-
Impairment charge	11	60,300	-	-	-
Gain on acquisition	4	-	(7,760)	-	-
Other cost	13,15	16,904	11,409	-	-
Finance income	8	(856)	(211)	(515)	(68)
Dividend income		-	-	(110,000)	-
Finance costs	8	9,125	23,857	-	-
Change in provision expensed		(16,735)	12,603	-	-
Unwinding of discount	8	1,544	2,358	-	-
Loan commitment fee expensed	8	1,607	-	-	-
Foreign currency swaps	8	(2,866)	(529)	-	-
Unrealised foreign exchange losses		-	571	-	-
		132,650	238,106	-	(1)
Working capital adjustments:					
(Increase) in trade and other receivables		(10,881)	(12,316)	-	21
(Decrease) in trade and other payables		(23,293)	(16,293)	-	(2)
(Increase)/decrease in inventories		(7,111)	2,931	-	-
Cash from operations		91,365	212,428	-	18
Hedging amounts (paid)/received		(566)	4,529	-	-
Interest paid		(9,125)	(17,002)	-	-
Interest received		856	211	515	68
Tax paid		-	(4)	-	(4)
Net cash from operating activities		82,530	200,162	515	82
Investing activities					
Dividends received		-	-	110,000	-
Acquisition of Triton area assets		(10,000)	(37,817)	-	-
Decommissioning expenditure		(434)	(353)	-	-
Exploration and evaluation asset additions		(7,859)	(388)	-	-
Purchase of property, plant and equipment		(42,278)	(15,748)	-	-
Net cash (used in)/ provided by investing activities		(60,571)	(54,306)	110,000	-
Financing activities					
Proceeds from borrowings	19	-	15,343	-	-
Loan commitment fees		(517)	(3,577)	-	-
Repayment of borrowings	19	(30,000)	(31,000)	-	-
Dividends paid		(71,773)	-	(71,773)	-
Loan to subsidiary		-	-	-	(5,081)
Net cash (used in) financing activities		(102,290)	(19,234)	(71,773)	(5,081)
Net (decrease)/increase in cash and cash equivalents		(80,331)	126,622	38,742	(4,999)
Cash and cash equivalents at beginning of year		142,802	17,310	6	5,005
Effect of foreign exchange rate changes		-	(1,130)	-	-
Cash and cash equivalents at end of year	16	62,471	142,802	38,748	6

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

1. Corporate information

The consolidated financial statements of NSV Energy Limited (the “Group” or “Tailwind”) for the year ended 31 December 2020 which comprise the parent company, NSV Energy Limited (the Company) and its subsidiaries, Tailwind Energy Ltd and Tailwind Mistral Ltd, were authorised for issue in accordance with a resolution of the directors on 27 May 2021.

NSV Energy Limited is a private limited company by shares incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The principal activity of the Group and the Company is the acquisition, exploration, development and production of oil and gas reserves on the UK Continental Shelf (UKCS). The registered office address of all members of the Group is 62 Buckingham Gate, London, SW1E 6AJ, United Kingdom.

2. Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group’s financial statements.

Going Concern

The financial statements have been prepared in accordance with the going concern basis of accounting. The use of this basis of accounting takes into consideration the Company’s and the Group’s current and forecast financing position, additional details of which are provided in the Going Concern section of the Directors’ Report.

Basis of Preparation

The Group has prepared its financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. The financial statements are prepared on the historical cost basis except for the valuation of hedging instruments. The Group financial statements are presented in US Dollars and all values are rounded to the nearest thousand dollars (\$’000) except where otherwise stated.

The Group has elected to take the exemption under section 408 of the Companies Act 2006 not to present a company income statement. The profit recorded for the year ended 31 December 2020 was \$110.5 million (2019: \$63 thousand).

New standards, amendments and interpretations issued and effective during the financial year beginning 1 January 2020 that are relevant to the Group

The Group, has considered all new and amended IFRSs issued by the International Accounting Standards Board (IASB), that are mandatorily effective for the year ending 31 December 2020. Where the changes affect the Group, the relevant application and disclosure has been made during the year to 31 December 2020. The new and amended IFRSs during the year are as detailed below:

- Amendments to IFRS 3 *Definition of a Business*
- Amendments to IFRS 7, IFRS 9 and IAS 39 *Interest Rate Benchmark Reform*
- Amendments to IAS 1 and IAS 8 *Definition of Material*

The application of the above standards and amendments did not have any material impact on the Group’s consolidated financial statements.

Standards issued but not yet effective that are relevant to the Company

The following standards and amendments and interpretations to existing standards have been published and are mandatory for the Company’s accounting period beginning on or after 1 January 2021 or later periods, but the Company had not early adopted them:

- Amendments to IAS 1 *Classification of Liabilities as Current or Non-current*
- Amendments to IAS 16, *Property, Plant and Equipment: Proceeds before intended use*

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Foreign currency translation

Each entity in the Group determines its own functional currency, being the currency of the primary economic environment in which the entity operates, and items included in the financial statements of each entity are measured using that functional currency. The consolidated financial statements are presented in US Dollars, which is also the Company's functional currency.

Transactions recorded in foreign currencies are initially recorded in the entity's functional currency by applying an average rate of exchange. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the profit and loss account, except when hedge accounting is applied. Non-monetary assets and liabilities denominated in foreign currencies are measured at historic cost based on exchange rates at the date of the transaction and subsequently not retranslated.

On consolidation, the assets and liabilities of the Group's operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average monthly exchange rates for the year. Equity is held at historic costs and are not retranslated. The resulting exchange differences are recognised as other comprehensive income or expense and are transferred to the Group's translation reserve.

Joint arrangements

Exploration and production operations are usually conducted through joint arrangements with other parties. The Group reviews all joint arrangements and classifies them as either joint operations or joint ventures depending on the rights and obligations of each party to the arrangement and whether the arrangement is structured through a separate vehicle. All interests in joint arrangements held by the Group are classified as joint operations.

In relation to its interests in joint operations, the Group recognises its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation; and
- Expenses, including its share of any expenses incurred jointly.

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets transferred, equity instruments issued, and liabilities incurred or assumed at the date of completion of the acquisition. Acquisition costs incurred are expensed and included in administrative expenses. Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement measured at its fair value at acquisition.

The identifiable assets, liabilities and contingent liabilities acquired that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquirer's share-based payment awards are measured in accordance with IFRS 2 Share based payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held For Sale and discontinued operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known would have affected the amounts recognised as of that date. The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, subject to a maximum of one year.

Contingent Consideration

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

Intangible assets – exploration and evaluation assets

Exploration, evaluation and expenditure is accounted for using the successful efforts method of accounting.

(i) Pre-licence costs

Pre-licence costs are expensed in the period in which they are incurred.

(ii) Licence and property acquisition costs

Licence and property acquisition costs paid in connection with a right to explore in an existing exploration area are capitalised as exploration and evaluation costs within intangible assets.

Licence and property acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and that sufficient progress is being made on establishing development plans and timing.

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

Intangible assets – exploration and evaluation assets (continued)

If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence and property acquisition costs are written off through the statement of profit or loss and other comprehensive income. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

(iii) Exploration and evaluation costs

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalised as exploration and evaluation intangible assets until the exploration is complete and the results have been evaluated. Geological and geophysical costs are recognised in the statement of profit or loss and other comprehensive income, as incurred.

If no potentially commercial hydrocarbons are discovered, the exploration asset is written off through the statement of profit or loss and other comprehensive income as a dry hole. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as an intangible asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalised as an intangible asset.

All such capitalised costs are subject to technical, commercial and management review, as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off through the statement of profit or loss and other comprehensive income.

When proved reserves of oil and natural gas are identified and development is sanctioned by management, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to oil and gas properties. Other than licence costs, no amortisation is charged during the exploration and evaluation phase.

(iv) Farm-outs – in the exploration and evaluation phase

The Group does not record any expenditure made by the farminee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements but re-designates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farminee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmenor as a gain on disposal.

(v) Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties.

Oil and gas properties and other property, plant and equipment

Oil and gas properties and other property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and, for qualifying assets (where relevant), borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalised value of a finance lease is also included within property, plant and equipment.

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

Oil and gas properties and other property, plant and equipment (continued)

All costs relating to the development are accumulated and not depreciated until the commencement of production. Depreciation is provided using the unit of production method based on proved and probable reserves. When there is a change in the estimated total recoverable proven and probable reserves of a field, that change is accounted for prospectively in the depreciation charge over the revised remaining proven and probable reserves.

An item of development and production expenditure and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss account.

Expenditure on major maintenance refits, inspections or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset, or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalised. All other day-to-day repairs and maintenance costs are expensed as incurred.

Other property, plant and equipment

Non-oil and gas property, plant and equipment is stated at cost less accumulated depreciation and impairment. Depreciation is provided for on a straight-line basis at rates sufficient to write off the asset less any residual value over their estimated useful economic lives. The depreciation periods for the principal categories of assets are as follows:

Fixtures and fittings	5 years
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Impairment of non-current assets (excluding goodwill)

The Group assesses at each reporting date whether there is an indication that an asset (or CGU) may be impaired. Management has assessed its CGUs as being a field or group of field that are the lowest level for which cash inflows are largely independent of those of other assets. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal (FVLCD) and value-in-use (VIU). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount.

In calculating VIU, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining FVLCD, recent market transactions (where available) are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

Financial Instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

Financial Instruments (continued)

(a) Financial Assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

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

Loans and receivables

Loans and receivables are initially measured at fair value and subsequently carried at amortised cost using the effective interest rate (EIR) method, less impairment. The EIR amortisation is presented within finance income in the profit and loss account.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

The Group recognises a loss allowance for expected credit losses on trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Group always recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The losses arising from any impairment are recognised in operating expenses.

Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and on hand which are subject to an insignificant risk of changes in value.

(b) Financial Liabilities

Borrowings

Borrowings are recognised initially at fair value plus directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

(c) Derivative financial instruments

Derivative financial instruments are initially recognised and subsequently re-measured at fair value. When derivatives do not qualify for hedge accounting or are not designated as accounting hedges, changes in the fair value of the instrument are recognised within profit and loss.

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

Financial Instruments (continued)

(d) Fair values

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active market for identical assets and liabilities
- Level 2 – Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Inventories

Inventories of consumable well supplies are stated at the lower of cost and net realisable value, cost being determined on an average cost basis. Inventories of petroleum products are stated at net realisable value.

Production imbalances and under/overlift

Production imbalances arise on fields as oil is lifted per each joint venture party, resulting in a variance in the volume of oil lifted versus the entitlement per owner per their working interest. All Group fields are operated through a Joint Operating Agreement ('JOA') through which production imbalances are settled. Settlement occurs through agreed lifting schedules and are not settled in cash, with the exception of a misbalance at the cessation of contract. As collaborative agreements and non-monetary exchanges, the transactions do not meet the definition of a customer under IFRS 15 and are recognised through cost of sales.

The under or over-lifted positions of hydrocarbons arising from production imbalances are valued at market prices prevailing at the balance sheet date. An under-lift of production from a field is included in current receivables and valued at the reporting date spot price or prevailing contract price. An over-lift of production from a field is included in current liabilities and valued at the reporting date spot price or prevailing contract price. Movements in under or over-lifted positions are accounted for through cost of sales.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax risk free rate. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Decommissioning liability

Decommissioning costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the relevant asset. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate.

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

Provisions (continued)

Decommissioning liability (continued)

Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset. If the decrease in the decommissioning liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss. If the adjustment results in an addition to the cost of the asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable.

Taxes

(a) Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the country where the Group operates and generates taxable income.

Current income tax related to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or directly in equity, not in the profit or loss.

(b) Deferred tax

Deferred taxation is recognised in respect of all timing differences arising between the tax bases of the assets and liabilities and their carrying amounts in the financial statements with the following exceptions:

- Deferred income tax assets are recognised only to the extent that it is probable that the taxable profit will be available against which the deductible temporary difference, carried forward tax credits or tax losses can be utilised.
- Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the reporting date. The carrying amount of the deferred income tax asset is reviewed at each reporting date.
- Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to offset current assets against current tax liabilities, the deferred income tax relates to the same tax authority and that same tax authority permits the Group to make a single net payment.

(c) Investment allowance

The UK taxation regime provides for a reduction in ring fence supplementary corporation tax where investment in new or existing UK assets qualify for a relief known as investment allowance. Investment allowance must be activated by commercial production from the same field before it can be claimed. The Group has both unactivated and activated investment allowance which could reduce future supplementary corporation taxation. The Group's policy is that investment allowance is recognised as a reduction in the charge to taxation in the years claimed.

Revenue

Revenue from contracts with customers is recognised when or as the Group satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas, natural gas liquids, and other items sold by the Group usually coincides with title passing to the customer and the customer taking physical possession. The Group principally satisfies its performance obligations at a point in time and the amounts of revenue recognised relating to performance obligations satisfied over time are not significant. Under the Group's joint operation arrangements, revenue is recognised according to the actual liftings. However, where liftings do not match working interest or entitlement interest, an adjustment is made to cost of sales representing the amount due to/from joint venture partners representing over/ underlift movements.

Use of significant accounting judgements and key sources of estimation uncertainty

The preparation of the Group's and Company's financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions at the date of the financial statements.

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

Significant accounting judgements

There were no significant accounting judgements applied during the year.

Key sources of estimation uncertainty

Estimates and assumptions are continuously evaluated and are based on management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets and liabilities affected in future periods. The estimates and assumptions which have a risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Oil and gas reserves (note 11)

Significant estimates and determinations are required when assessing the economically recoverable reserves of an oil and gas field. Such estimates are impacted by a number of factors, including commodity prices, future capital expenditure and the available reservoir data. The estimation of oil and gas reserves affects the calculation of depreciation, the recoverable amount of assets for the purpose of impairment testing and the anticipated date of decommissioning. A 5% reduction in the estimation of proved and probable reserves would have increased the depreciation charge by \$5.6 million.

(b) Recoverability of oil and gas assets (note 11)

The Group assesses each asset or cash generating unit each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal and value-in-use (VIU). The assessments of VIU require the use of estimates and assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserve profiles and operating performance. A 5% increase in the oil price and gas price assumptions would result in lower impairment charge of \$4.5 million while a 5% decrease in the oil price and gas price assumptions would result in higher impairment charge of \$4.4 million. A 1% increase change in the discount rate assumption would result in a \$1.4 million higher impairment charge.

(c) Decommissioning costs (note 18)

Decommissioning costs will be incurred by the Group at the end of the operating life of most of the Group's facilities and properties. The Group assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including the expected timing, extent and amount of expenditure. On the basis that all other assumptions in the calculation remain the same, a 5% increase in the cost estimates used to assess the final decommissioning obligation would result in an increase to the decommissioning provision of circa \$4.1 million. This change would be principally offset by a change to the value of the associated asset and result in a higher impairment charge on Conwy of \$1.9 million.

(d) Recovery of deferred tax assets (note 9)

Judgement is required to determine whether deferred tax assets are recognised in the balance sheet. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods over the life of field, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable income are based on forecasted cash flows from operations and judgement about the application of existing tax laws.

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

3. Business transfer

On 4 July 2019, the Company's immediate subsidiary Tailwind Energy Ltd transferred the entirety of its oil and gas business which includes the Triton cluster assets to its subsidiary Tailwind Mistral Ltd for a total consideration of \$365.5 million, consolidating all its oil and gas operations under a single entity.

4. Business combination

Triton Cluster

In December 2017, the Group signed agreements with Shell UK Limited, Shell EP Offshore Ventures Limited and Esso Exploration and Production UK Limited (the 'Sellers') to acquire the Sellers' interests in a package of assets (Triton cluster) in the UK North Sea.

The transaction completed on 1 September 2018 for a cash consideration at completion of \$139.7 million with further payments of \$100.4 million to the respective Sellers contingent upon future production results and commodity prices.

An initial gain on acquisition of \$100.8 million was recognised based on preliminary estimates of the fair values recognised in respect of net identifiable assets acquired and liabilities assumed at acquisition date of \$340.9 million, and after finalisation during 2019, an additional \$7.8 million gain on acquisition was recognised in the income statement.

5. Revenue

Revenue represents amounts receivable for the sale of hydrocarbons as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
	\$'000	\$'000
Crude oil sales	258,007	361,121
Gas sales	4,871	6,084
	<u>262,878</u>	<u>367,205</u>

One customer represented 100% of crude oil sales and two customers represented 100% of gas sales. The Group's activities consist of one class of business – the acquisition, exploration, development and production of oil and gas reserves and related activities in a single geographical area presently being the UK Continental Shelf.

The performance obligation is satisfied by the delivery of the product at an agreed delivery point in the distribution chain, often either at the well head or delivery terminal. Payment is generally due within 30 days from delivery.

6. Operating (loss)/profit

This is stated after charging:

	Year ended 31 December 2020	Year ended 31 December 2019
	\$'000	\$'000
Operating costs	98,635	130,568
Depreciation - oil and gas producing assets (note 11)	106,595	164,474
Depreciation - fixtures and fittings (note 11)	-	162
Impairment charge (note 11)	60,300	-
Movement in hydrocarbon inventories and under/overlift	(1,018)	(7,466)

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

6. Operating (loss)/profit (continued)

<i>Auditor's remuneration</i>	Year ended 31 December 2020	Year ended 31 December 2019
	\$'000	\$'000
Audit of the Company's and Group Financial Statements	5	5
Audit of the Subsidiaries	125	125

There were no non-audit services and fees during the year (2019: \$nil).

7. Staff costs

The monthly average number of persons employed during the year was 21 (2019: 18) including the 4 directors.

	Year ended 31 December 2020	Year ended 31 December 2019
	\$'000	\$'000
Directors' remuneration	3,969	2,548
Wages and salaries	2,141	2,356
Social security	482	645
Pension	300	106
Other	74	658
	6,966	6,313
Remuneration of the highest paid director		
Emoluments	972	766
Pension	-	13
	972	779

8. Finance income and finance costs

<i>Finance income and other gains</i>	Year ended 31 December 2020	Year ended 31 December 2019
	\$'000	\$'000
Bank interest income	856	211
Foreign currency swaps (note 13)	2,866	529
	3,722	740
<i>Finance costs, other finance expenses and losses</i>		
Interest on loans	9,125	23,857
Unwinding of discount on provisions	1,544	2,358
Bank charges and other	6	141
Loan commitment fee expensed	1,607	-
Exchange differences and other losses	1,037	571
	13,319	26,927

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

9. Taxation

The major components of the Group's and Company's income tax (credit) were:

	Group	
	Year ended 31 December 2020	Year ended 31 December 2019
	\$'000	\$'000
<i>Current tax</i>		
Current tax on profits for the year and adjustments in respect of prior years	-	4
Total current tax	-	4
<i>Deferred tax</i>		
Current year	(2,639)	(12,092)
Adjustment in respect of previous periods	(6,907)	(3,070)
Effect of changes in tax rates	769	(769)
Total deferred tax	(8,777)	(15,931)
Tax per income statement	(8,777)	(15,927)

The standard rate of UK ring fence corporation tax and supplementary charge rate of 40% was applied to the reported profit before tax.

The tax (credit) for the year can be reconciled to the (loss)/profit before tax as follows:

	Group	
	Year ended 31 December 2020	Year ended 31 December 2019
	\$'000	\$'000
(Loss)/profit before tax	(42,968)	31,334
Tax on (loss)/profit at standard UK rate of 40%	(17,187)	12,534
Effects of:		
Adjustments in respect of prior years	(6,907)	(3,070)
Expenses not deductible	1,965	3,521
Income not taxable	(2,293)	(4,221)
Investment allowance	-	(19,547)
Tax rate changes	769	(769)
Deferred tax not recognised	1,670	-
Impact of Outside Ring Fence activity taxable at 19%	13,206	(5,775)
Other	-	1,400
Income tax (credit) reported in profit or loss	(8,777)	(15,927)

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

9. Taxation (continued)

Deferred income tax

Deferred income tax at year end relates to the following:

	Group		Company	
	Year ended 31 December 2020 \$'000	Year ended 31 December 2019 \$'000	Year ended 31 December 2020 \$'000	Year ended 31 December 2019 \$'000
Deferred tax liability				
Accelerated capital allowances	(219,311)	(256,206)	-	-
Temporary differences on hedges	(25,165)	(13,316)	-	-
	(244,476)	(269,522)	-	-
Deferred tax asset				
Decommissioning provisions	33,010	23,743	-	-
Tax losses carried forward	272,586	304,827	-	-
Investment allowance	20,161	17,278	-	-
Temporary differences on hedges	3,822	-	-	-
	329,579	345,848	-	-
Deferred tax asset	85,103	76,326	-	-

Analysis of deferred tax

	Group		Company	
	Year ended 31 December 2020 \$'000	Year ended 31 December 2019 \$'000	Year ended 31 December 2020 \$'000	Year ended 31 December 2019 \$'000
Deferred tax at beginning of year	76,326	54,952	-	-
Initial recognition in business combination	-	7,257	-	-
Currency translation differences	-	(1,814)	-	-
Credited to profit and loss account	8,777	15,931	-	-
Deferred tax asset at end of year	85,103	76,326	-	-

The Group's deferred tax assets at 31 December 2020 are recognised to the extent that taxable profits are expected to arise in the future against which tax losses and allowances in the UK can be utilised. In accordance with IAS 12 Income Taxes, the Group assessed the recoverability of its deferred tax assets at 31 December 2020 with respect to ring fence tax losses and allowances. No deferred tax asset was recognised on non-ring fence losses of \$9.5 million as at 31 December 2020 as the Group do not consider to be probable that future taxable profits will be available for these losses to be utilised against.

A change to the UK corporation tax rate was substantively enacted on 4 March 2020. The corporation tax main rate for the period beginning 1 April 2021 will remain at 19% and from 1 April 2023, will increase to 25%. As the increase to 25% was not substantively enacted at the balance sheet date the effect is not included in these financial statements.

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

10. Exploration and evaluation assets

	Group		Company	
	31 December 2020 \$'000	31 December 2019 \$'000	31 December 2020 \$'000	31 December 2019 \$'000
At beginning of year	19,307	15,666	-	-
Additions in the year	7,859	388	-	-
Movement in decommissioning assets (note 18)	413	3,253	-	-
At end of year	27,579	19,307	-	-

The interest bearing loans (note 19) are secured over the oil and gas assets of the Group.

11. Property, plant and equipment

	Group		
	Oil and gas development & production assets \$'000	Fixtures and fittings \$'000	Total \$'000
Cost			
At 1 January 2019	803,357	167	803,524
Additions in the year	16,135	-	16,135
Movement in decommissioning assets	3,375	-	3,375
Currency translation adjustment	(794)	-	(794)
At 31 December 2019	822,073	167	822,240
Additions in the year	42,278	-	42,278
Written off	-	(167)	(167)
Movement in decommissioning assets (note 18)	21,695	-	21,695
At 31 December 2020	886,046	-	886,046
Depreciation			
At 1 January 2019	21,832	5	21,837
Charge for the year	164,474	162	164,636
Currency translation adjustment	(155)	-	(155)
At 31 December 2019	186,151	167	186,318
Charge for the year	106,595	-	106,595
Written off	-	(167)	(167)
Impairment charge	60,300	-	60,300
At 31 December 2020	353,046	-	353,046
Net book value			
At 31 December 2019	635,922	-	635,922
At 31 December 2020	533,000	-	533,000

The interest bearing loans (note 19) are secured over the oil and gas assets of the Group. The Company did not have any property, plant and equipment.

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

11. Property, plant and equipment (continued)

On 4 July 2019, Tailwind Energy Ltd transferred the entirety of its oil and gas business which includes the Triton cluster assets to its fully owned subsidiary Tailwind Mistral Ltd. See note 3 for further details. The interest bearing loans are secured over the oil and gas assets of the Group.

As a result of the impairment test described below, oil and gas production assets were impaired by \$60.3 million relating to the Conwy and Columbus fields. The impairment arose as a result of the lower price environment following the Covid-19 impact on the oil supply and demand as well as the Conwy field ceasing to produce earlier than previously planned due to not being economically viable from 2022. For information on significant estimates and judgements made in relation to impairments, see Note 2.

Impairment testing

The method used to determine the recoverable amount is based on the value in use method using a discounted cash flow model based on internal assumptions, including a post-tax discount rate of 10%, and future cash flows based on forward curve commodity prices and production cost and profiles. The value in use is based on cash flows expected to be generated by the projected oil or gas production profiles up to the expected dates of cessation of production of each producing field, based on current estimates of proven and probable reserves. As the production profile and related cash flows can be estimated from the Company's past experience, management believes that the cash flows generated over the estimated life of the field is the appropriate basis upon which to assess individual assets for impairment.

The Brent oil price assumptions (in real terms) used in the impairment review of oil and gas producing assets ranged from \$49.9/bbl in 2021 to \$54.5/bbl in 2030 which is the end of life of field for most of Tailwind's assets. The NBP gas price assumptions (in real terms) averaged 43p/therm over the life of field.

Key assumptions for the oil and gas prices were based on the forward curve, views of global supply and demand, building upon past experience in the industry and using information from external sources. The key assumptions required for the value in use estimation are the oil and gas prices, production and cost profiles and the discount rate. Sensitivity to changes in the key assumptions are shown in note 2.

12. Investment in subsidiary

	Company	
	31 December 2020	31 December 2019
	\$'000	\$'000
At beginning of year	2	2
Additions	-	-
At end of year	<u>2</u>	<u>2</u>

At 31 December 2020, the principal subsidiary undertakings of the Company which were wholly owned were:

Name of company	Country of incorporation	Ordinary share capital holding	Main activity
Tailwind Energy Ltd	UK	100%	Oil and gas
Tailwind Mistral Ltd	UK	100% (indirect)	Oil and gas

The registered address of Tailwind Energy Ltd and Tailwind Mistral Ltd is 62 Buckingham Gate, London, SW1E 6AJ, United Kingdom.

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

13. Other financial assets

Group	31 December 2020		31 December 2019	
	Assets	Liabilities	Assets	Liabilities
	\$'000	\$'000	\$'000	\$'000
<i>Measured at fair value</i>				
Commodity swaps and options	5,003	(2,537)	46	-
Foreign currency swaps	11,177	(3,456)	2,600	-
Total current	16,180	(5,993)	2,646	-
<i>Measured at fair value</i>				
Commodity swaps and options	3,169	-	4,448	-
Foreign currency swaps	213	-	-	-
Total non-current	3,382	-	4,448	-
Total current and non-current	19,562	(5,993)	7,094	-

All financial instruments that are initially recognised and subsequently re-measured at fair value have been classified with the hierarchy described in IFRS 13 “Fair Value Measurement”. The hierarchy groups fair value measurements into the following levels based on the degree to which the fair value is observable.

Level 1: fair value measurements are derived from unadjusted quoted prices for identical assets or liabilities.

Level 2: fair value measurements include inputs, other than quoted prices included within level 1, which are observable directly or indirectly.

Level 3: fair value measurements are derived from valuation techniques that include significant inputs not based on observable data.

Group	Financial assets			Financial liabilities		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Measured at fair value</i>						
As at 31 December 2020	-	19,562	-	-	(5,993)	-
As at 31 December 2019	-	7,094	-	-	-	-

The Group uses put and call options and swap contracts to manage its exposure to the oil price and foreign currency exposure to GBP. Derivative financial instruments are valued by counterparties, with the valuations reviewed internally and corroborated with readily available market data (level 2).

Commodity and foreign currency derivative contracts are designated as at fair value through profit and loss (FVPL), and gains and losses on these contracts are recognised in the income statement. Commodity derivative contracts typically include bought and sold call options, bought put options and commodity swap contracts. Foreign currency derivative contracts include foreign currency swap contracts.

During the prior year, the Company transferred all its commodity derivative contracts to its subsidiary as part of the oil and gas business transfer on 4 July 2019. Subsequently, on 3 October 2019, the Company purchased the commodity hedge swap contracts from the counterparty as at 3 October 2019, such that Tailwind Mistral Ltd commodity swap contracts were with Tailwind Energy Ltd from that date. The fair value of these commodity swap contracts at that date amounted to \$58.2 million.

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

13. Other financial assets (continued)

For the year ended 31 December 2020, gains totalling \$3.0 million (2019: losses of \$2.4 million) were recognised in respect of commodity contracts designated as FVPL in other costs in the income statement. This included gains totalling \$1.9 million (2019: gains of \$0.7 million) realised on contracts that matured during the year, and mark-to-market unrealised gains totalling \$1.1 million (2019: losses of \$3.1 million).

For the year ended 31 December 2020, gains totalling \$2.9 million (2019: gains of \$0.5 million) were recognised in respect of foreign currency swap contracts designated as FVPL in other costs in the income statement (note 8). This included losses of \$2.4 million (2019: losses of \$2.1 million) realised on contracts that matured during the year and mark-to-market unrealised gains totalling \$5.3 million (2019: gains of \$2.6 million).

The mark-to-market of the Group's open contracts as at 31 December 2020 was an asset (net) of \$13.6 million (2019: asset of \$7.1 million).

The Company did not have any financial instruments at fair value.

14. Inventories

	Group	
	31 December 2020	31 December 2019
	\$'000	\$'000
Hydrocarbons	11,925	4,802
Consumables and supplies	-	12
	<u>11,925</u>	<u>4,814</u>

Hydrocarbons are measured at net realisable value. There was no hydrocarbon inventory for the Company.

15. Trade and other receivables

	Group		Company	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	\$'000	\$'000	\$'000	\$'000
Current				
Trade receivables	1,301	17,130	-	-
Accrued receivables	1,047	3,866	-	-
Other receivables	17,260	19,067	-	-
Underlift position	30,046	1,740	-	-
Prepayments	1,657	-	-	-
Tax receivable	2,478	3,405	-	-
Amounts receivable from subsidiary	-	-	5,081	5,081
	<u>53,789</u>	<u>45,208</u>	<u>5,081</u>	<u>5,081</u>
Non-current				
Other receivables	12,465	30,112	-	-

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Notes to the Financial Statements for the year ended 31 December 2020

15. Trade and other receivables (continued)

Trade receivables are non-interest bearing and are generally on 30 day terms. None of the Group's receivables are considered to be impaired and there are no financial assets past due but not impaired at the year end. The carrying values of the trade and other receivables are equal to their fair values as at the balance sheet date.

Current and non-current other receivables include a total amount of \$29.2 million representing the remaining unamortised costs of entering a revenue contract deferred over future periods. The Company entered in a fixed price contract with Mercuria during 2019 to sell at least 45% of the Group's oil production on agreed fixed prices between 2020 and 2023. The cost to enter this arrangement was \$58.2 million and this cost is amortised to the income statement in other costs based on volumes lifted at fixed prices, with an amount of \$19.9 million amortised during the year within other costs in the income statement and a total of \$29.0 million amortised as at 31 December 2020.

16. Cash and cash equivalents

	<u>Group</u>		<u>Company</u>	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	\$'000	\$'000	\$'000	\$'000
Cash at bank and in hand	62,471	142,802	38,748	6
	62,471	142,802	38,748	6

17. Trade and other payables

	<u>Group</u>		<u>Company</u>	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	\$'000	\$'000	\$'000	\$'000
Current				
Trade creditors	7,157	4,078	-	-
Accruals	19,122	34,137	5	5
Accruals – non-operated assets	16,677	15,689	-	-
Other creditors	141	312	-	-
Deferred consideration	-	11,509	-	-
	43,097	65,725	5	5

Trade payables are normally non-interest bearing and settled on terms of between 10 and 30 days. Accrued expenses include accruals for capital and operating expenditure in relation to the oil and gas assets.

Deferred consideration in the prior year related to the Triton Cluster acquisition and represents the final deferred payment two years after the acquisition date and had been included at a discounted value.

The carrying value of the Group's trade and other payables as stated above is considered to be a reasonable approximation of their fair value largely due to the short-term maturities.

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Notes to the Financial Statements for the year ended 31 December 2020

18. Provisions

	Group			
	Contingent consideration	Royalty	Decommissioning provision	Total
	\$'000	\$'000	\$'000	\$'000
At 1 January 2020	27,393	25,539	59,358	112,290
Change in estimate	223	(18,065)	23,215	5,373
Utilisation in the year	(10,000)	-	(434)	(10,434)
Unwinding of discount	426	442	386	1,254
At 31 December 2020	18,042	7,916	82,525	108,483
Current	-	-	-	-
Non-current	18,042	7,916	82,525	108,483
At 31 December 2020	18,042	7,916	82,525	108,483

There were no provisions in the Company. Contingent consideration represents amounts payable subject to future production volume results on certain assets in the Triton Cluster from 2022 to 2030.

Royalty represent amounts payable subject to future production volumes and commodity prices over the life of certain assets in the Triton Cluster. The decrease in royalty provision during 2020 is mainly due to the significant decrease in the forecast oil price over the remaining life of the Triton assets.

The provision for the above deferred, contingent and royalty considerations represents the best estimate of amounts payable under the sale and purchase agreement for the Triton Cluster as at the balance sheet date and will be reviewed at least annually, taking into account actual production results and planned activities. Changes to the provisions will be presented in the profit and loss statement on a prospective basis.

The decommissioning provision represents the present value of decommissioning costs relating to oil and gas interests in the UK which are expected to be incurred up to 2031. These provisions have been created based on Tailwind's internal estimates and, where available, operator estimates and third-party reports. The increase in the provision during 2020 is mainly due to increase in cost estimates on the Conwy field (expected decommissioning 2022) based on third-party reports and additional provisions recognised on the Triton assets as a result in increase in costs estimates based on operator updates at the year end. Based on the current economic environment, assumptions have been made which are believed to be a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

Discount rates ranging from (0.14)% to 0.26% and an inflation rate of 1.71% have been applied to decommissioning estimates when determining the net present value of the decommissioning provision.

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Notes to the Financial Statements for the year ended 31 December 2020

19. Interest bearing loans

The Group's loan is carried at amortised cost as follows:

	Group	
	31 December 2020	31 December 2019
	\$'000	\$'000
Reserve based lending	277,209	307,209
Loan commitment fees	(2,862)	(3,577)
	274,347	303,632
Due within one year	-	-
Due after more than one year	274,347	303,632
	274,347	303,632

There were no interest bearing loans in the Company. During the year, the Group made a voluntary repayment of \$30.0 million on its reserve based lending ('RBL') facility. Details of the RBL facility are provided below.

During 2019, the Group drew down a total of \$16.2 million from a Mezzanine loan facility with Mercuria Energy Trading S.A., represented by cash drawdowns of \$13.8 million and non-cash drawdown of \$2.4 million relating to net settlement of hedges and interest with Mercuria Energy Trading S.A. The Group also made total cash repayments of \$31.0 million on a Senior loan facility with Mercuria Energy Trading S.A.

On 24 September 2019, the Group obtained a new reserve lending facility of \$350.0 million from a syndicate of banks. The facility has a six-year term due to mature on 23 September 2025 and is secured over the oil and gas assets of the Group (note 10 and 11). In addition to the committed \$350.0 million, a further \$400.0 million is available on an uncommitted "accordion" basis. Interest will accrue at LIBOR plus a margin of between 2.5% to 3.1% depending on the maturity of the facility.

On 26 September 2019, \$307.2 million was drawn down from the RBL facility and this was used to fully repay the Senior and Mezzanine loan facility that the Group had with Mercuria Energy Trading S.A., including interest accrued of \$6.6 million, which amounted to a total of \$305.7 million as at that date. This repayment portion of the drawdown represented a non-cash movement as the loan drawdown was made directly by the banks to Mercuria Energy Trading S.A.

The total facility available for draw-down as at 31 December 2020 was \$330.0 million (2019: \$327.5 million). Subsequent to the year end, there were no further repayment of the RBL and the term of the facility was extended such that the new maturity date of the facility is now 23 September 2027.

On 24 September 2019, the Group also entered in a Junior Facility agreement with Mercuria Energy Trading S.A. for a facility of \$50.0 million. There were no drawdowns on this facility as at 31 December 2020.

Changes in financial liability arising from financing activities

	Group					
	1 January 2020	Cash flows	Dividends declared	Loan commitment fees expensed	31 December 2020	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Reserve based lending	303,632	(30,517)	-	1,232	274,347	
Dividends (note 20)	-	(71,773)	71,773	-	--	

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

19. Interest bearing loans (continued)

Changes in financial liability arising from financing activities (continued)

	Company				
	1 January 2020	Cash flows	Dividends declared	Loan commitment fees expensed	31 December 2020
	\$'000	\$'000	\$'000	\$'000	\$'000
Dividends (note 20)	-	(71,773)	71,773	-	-

20. Authorised and issued share capital

	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	No.	No.	\$	\$
Authorised and issued shares:				
Ordinary shares of £0.005 each	290	290	1	1
Share premium			-	-

During the prior year, the Company completed a reduction of its share capital, whereby (i) on 22 February 2019, the nominal value of each issued ordinary share in the capital of the Company was reduced from £0.01 to £0.005 each and (ii) on 22 March 2019, the entire amount standing to the credit of the Company's share premium account was cancelled. Distributable reserves created by the reduction of capital amounted to \$5 million.

Dividends of \$247,493 per share amounting to \$71.8 million were declared and paid in October 2020.

21. Commitments

Capital commitments

At 31 December 2020, the Group had commitments for future capital expenditure relating to its oil and gas and exploration and evaluation assets amounting to \$28.1 million (2019: \$64.5 million) and had issued a letter of credit for future decommissioning liabilities of \$10.8 million which was guaranteed by Mercuria Trading S.A.

22. Financial instruments

The Group's principal financial assets and liabilities comprise:

	Group		Company	
	31 December 2020 \$'000	31 December 2019 \$'000	31 December 2020 \$'000	31 December 2019 \$'000
<i>Held at amortised cost</i>				
Trade and other receivables	2,348	20,996	5,081	5,081
Cash and cash equivalents	62,471	142,802	38,748	6
Interest bearing loans	(277,209)	(307,209)	-	-
Trade and other payables	(43,097)	(65,725)	(5)	(5)
	<u>(255,487)</u>	<u>(209,136)</u>	<u>43,824</u>	<u>5,082</u>
<i>At FVTPL</i>				
Derivative financial instruments	13,569	7,094	-	-

The main purpose of these financial instruments is to manage short-term cash flow and raise finance for the Group's acquisitions.

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

22. Financial instruments (continued)

The Group's activities expose it to various financial risks particularly associated with fluctuations in oil price, foreign currency risk, liquidity risk and credit risk. Management reviews and agrees policies for managing each of these risks, which are summarised below. Also presented below is a sensitivity analysis to indicate sensitivity to changes in market variables on the Group's financial instruments and to show the impact on profit and shareholders' equity, where applicable. The sensitivity has been prepared for the periods ended 31 December 2020 and 31 December 2019 using the amounts of debt and other financial assets and liabilities held at those reporting dates.

Commodity price risk – oil prices

The Group is exposed to the impact of changes in Brent oil prices on its revenues and profits generated from sales of crude oil.

The Group's policy is to have the ability to hedge oil prices up to 50% of the next three years production on a rolling annual basis. Details of the commodity derivative contracts entered into during and in place at the end of 2020 are disclosed in note 13.

The following table summarises the impact on the Group's pre-tax profit and total equity of a reasonably possible change in the Brent oil price on the fair value of derivative financial instruments, with all other variables held constant. As the derivatives on hand at 31 December 2020 have not been designated as hedges, there is no impact on other comprehensive income within equity.

	Pre-tax profit		Equity	
	+\$10/bbl increase \$'000	-\$10/bbl decrease \$'000	+\$10/bbl increase \$'000	-\$10/bbl decrease \$'000
31 December 2020	(5,491)	4,851	-	-
31 December 2019	(1,422)	9,745	-	-

Interest Rate Risk Profile of Financial Assets and Liabilities

The interest rate profile of the financial assets and liabilities of the Group as at 31 December is as follows:

	Within 1 year \$'000	1-2 years \$'000	2-5 years \$'000	Total \$'000
Group				
Year ended 31 December 2020 - Floating rate				
Cash	62,471	-	-	62,471
Interest bearing loan	-	-	(277,209)	(277,209)
	62,471	-	(277,209)	(214,738)
Year ended 31 December 2019 - Floating rate				
Cash	142,802	-	-	142,802
Interest bearing loan	-	-	(307,209)	(307,209)
	142,802	-	(307,209)	(164,407)

The following table demonstrates the sensitivity of finance revenue and finance costs to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on interest bearing loans).

	Effect on profit before tax 31 December 2020 \$'000
Increase/decrease in interest rate	
+0.5%	(1,386)
-0.5%	1,386

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Notes to the Financial Statements for the year ended 31 December 2020

22. Financial instruments (continued)

The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

The interest rate profile of the financial assets and liabilities of the Company as at 31 December is as follows:

	Within 1 year \$'000	1-2 years \$'000	2-5 years \$'000	Total \$'000
Company				
Year ended 31 December 2020-Floating rate				
Cash	6	-	-	6
	6	-	-	6
Year ended 31 December 2019-Floating rate				
Cash	6	-	-	6
	6	-	-	6

Credit risk

The Group's and Company's exposure to credit risk relating to financial assets arises from the default of a counterparty with a maximum exposure equal to the carrying value as at the balance sheet date. The Group's oil and gas sales are all contracted with well-established trading, oil and gas or energy companies and the Group deposit cash surpluses with major banks of high-quality credit standing.

Foreign currency risk

The Group is exposed to foreign currency risk primarily arising from exchange rate movements in US Dollar against Pounds Sterling. To mitigate exposure to movements in exchange rates, wherever possible, financial assets and liabilities are held in currencies that match the functional currency of the relevant entity. Exposures can arise from sales or purchases denominated in currencies other than the functional currency of the relevant entity, such exposures are monitored and hedged with agreement from the Board. During 2020, the Group also entered into foreign currency derivative contracts to hedge its pound sterling requirements for 2021.

The following table summarises the impact on the Group's pre-tax profit and total equity of a reasonably possible change in the US Dollar to pound sterling exchange rate on the fair value of derivative financial instruments, with all other variables held constant. As the derivatives on hand at 31 December 2020 have not been designated as hedges, there is no impact on other comprehensive income within equity.

	Pre-tax profit		Equity	
	+10% increase \$'000	-10% decrease \$'000	+10% increase \$'000	-10% decrease \$'000
31 December 2020	14,359	(14,359)	-	-
31 December 2019	12,630	(12,630)	-	-

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Notes to the Financial Statements for the year ended 31 December 2020

22. Financial instruments (continued)

Liquidity risk

The Group monitors the amount of borrowings maturing within any specific period and proposes to meet its financing commitments from the operating cash flows of the business and existing committed lines of credit.

The table below summarises the maturity profile of the Group and Company's financial liabilities at 31 December 2020 based on contractual undiscounted payments.

	Within 1 year \$'000	1-2 years \$'000	2-5 years \$'000	Total \$'000
Group				
Year ended 31 December 2020				
Trade and other payables	(43,097)	-	-	(43,097)
Interest bearing loan	-	-	(277,209)	(277,209)
Company				
Year ended 31 December 2020				
Trade and other payables	(5)	-	-	(5)
	Within 1 year \$'000	1-2 years \$'000	2-5 years \$'000	Total \$'000
Group				
Year ended 31 December 2019				
Trade and other payables	(65,725)	-	-	(65,725)
Interest bearing loan	-	-	(307,209)	(307,209)
Company				
Year ended 31 December 2019				
Trade and other payables	(5)	-	-	(5)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group maintains capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

22. Financial instruments (continued)

Capital risk management (continued)

The gearing ratio at 31 December for the Group was as follows:

	31 December 2020	31 December 2019
	\$'000	\$'000
Total borrowings (note 19)	277,209	307,209
Less: cash and cash equivalents (note 16)	(62,471)	(142,802)
Net debt	214,738	164,407
Total equity plus net debt/cash	339,680	450,011
Gearing ratio %	63.2%	36.5%

23. Related party

The Group financial statements include the financial statements of NSV Energy Limited and its subsidiaries, Tailwind Energy Ltd and Tailwind Mistral Ltd. Balances and transactions between the Company and its subsidiary, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The Group's main related parties comprise the Directors and Mercuria Energy Trading S.A., a shareholder in the ultimate parent company of the Group. Balances and transactions with Mercuria Energy Trading S.A. are disclosed below.

	31 December 2020	31 December 2019
	\$'000	\$'000
Mercuria Energy Trading S.A.		
Other financial assets (note 13)	13,569	7,094
Accrued receivables (note 15)	-	3,665
Accruals	(5,455)	(3,991)

On 24 September 2019, the Group entered in a Junior Facility agreement with Mercuria Energy Trading S.A. for a facility of \$50 million. There were no drawdowns on this facility as at 31 December 2020.

Transactions in income statement with Mercuria Energy Trading S.A.	Year ended 31 December 2020	Year ended 31 December 2019
	\$'000	\$'000
Revenue (note 5)	257,886	319,360
Cost of sales	(14,339)	(2,312)
Interest on loans (note 8)	-	(20,079)
Gains on commodity derivative contracts (note 13)	3,043	(2,345)
Gains on foreign currency derivative contracts (note 13)	2,866	529
Loan commitment fee accrued	(375)	-

There are no related party transactions, or transactions with Directors that require disclosure except for the remuneration items disclosed in the Directors Report and note 7 above. These disclosures include the compensation of key management personnel.

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

24. Interests in joint arrangements

The Group, jointly with other participants, owns interests in licences for the exploration and production of hydrocarbons on the UK Continental Shelf and the East Irish Sea. The Group's share of joint arrangements as at 31 December 2020 are:

<i>Joint arrangement</i>	Interest %
Triton	46.42%
Bittern	64.63%
Guillemot West	10.00%
Columbus	25.00%
Valkyrie	25.00%
Arthur	30.00%

25. Immediate and ultimate parent company

The Company is a wholly owned subsidiary of Tailwind Holdings LLP, itself a 51% subsidiary of Cavendish Energy Holdings Ltd. Cavendish Energy Holdings Ltd is a 66% subsidiary of NSV Energy Holdings Ltd, which is also the ultimate parent company and ultimate controlling party, and which prepares consolidated financial statements. All companies in the Group are incorporated in the UK. Its registered office address is Balfour House Suite 206, 741 High Road, North Finchley, London, United Kingdom, N12 0BP.

26. Post balance sheet events

On 26 March 2021, the Company's subsidiary, Tailwind Mistral Ltd entered into a sales and purchase agreement with ENI UK Limited for the disposal of the Conwy field to ENI with an expected effective date of 1 July 2021, subject to certain conditions precedent, including stakeholder consents, regulatory and government approvals.

On 31 March 2021, the Company's subsidiary, Tailwind Energy Ltd entered into a sales and purchase agreement with Decipher Holding Limited for the acquisition of Decipher Energy Limited, with an effective acquisition date of 1 January 2021. The acquisition will add the Orlando producing field and the Senna and Mansell exploration and evaluation assets to Tailwind's portfolio, allowing the Group to continue to deploy its strategy of exploiting organic production and near-term reserves growth opportunities. The transaction has not yet completed and is subject to certain conditions precedent, including regulatory and government approvals.

On 21 May 2021, the Company's subsidiary, Tailwind Energy Ltd entered into a sales and purchase agreement for the acquisition of BP's entire working interest in the Shearwater field, effective 1 January 2021. BP holds a 27.5% non-operated interest in Shearwater. The transaction, which is subject to partner and regulatory approvals, furthers Tailwind's growth strategy by adding another high-quality producing asset to our portfolio.

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

Glossary of Terms

2P	Proven and probable reserves.
2C	Contingent resources
BBL	Barrel
BEIS	Department for Business, Environment & Industrial Strategy
boe	Barrels of oil equivalent
boepd	Barrels of oil equivalent per day
bpd	Barrels of oil per day
Capex	Capital expenditure
CPR	Competent person's report
EBITDA	Earnings before interest, tax and depreciation and amortisation
ERCE	Energy resource consultants
FPAL	First Point Assessment
FPSO	Floating, Producing, Storage and Off-Loading unit
ISDA	International Swaps and Derivatives Association
kbopd	Thousands of barrels of oil per day
kboepd	Thousands of barrels of oil equivalent per day
MER	Maximising Economic Recovery
mmbbls	Million barrels
mmboe	Million barrels of oil equivalent
mmboepd	Million barrels of oil equivalent per day
Net Debt	The cash and cash equivalents less total debt recognised on the consolidated balance sheet.
Opex	Operating expenditure
OPRED	Offshore Petroleum Regulator for Environment and Decommissioning
UKCS	UK Continental Shelf

NSV Energy Limited

Notes to the Financial Statements for the year ended 31 December 2020

Non-IFRS Measures

The Group uses certain measures of performance that are not specifically defined under IFRS or other generally accepted accounting principles. Definitions and reconciliations to the nearest equivalent IFRS measure are presented below.

Unlevered free cash flow

Unlevered free cash flow is defined as cash from operations less capital expenditure and decommissioning expenditure.

	2020 \$'000
Cash from operations (cash flow statement)	82,530
Less	
Purchase of property, plant and equipment	(42,278)
Purchase of exploration and evaluation assets	(7,859)
Decommissioning expenditure	(434)
Unlevered free cash flow	<u>31,959</u>

EBITDA

This is a useful indicator of underlying business performance and is defined as earnings before interest, tax and depreciation

	Year ended 31 December 2020 \$'000
(Loss) for the year (income statement)	(34,191)
Adjusted for:	
Finance income and other gains (note 8)	(3,722)
Finance costs, other finance expense and losses (note 8)	13,319
Taxation (note 9)	(8,777)
Depreciation, depletion and amortisation (note 11)	106,595
Impairment charge (note 11)	60,300
EBITDA	<u>133,524</u>

Net debt

This is an indicator of the Group's indebtedness and contribution to capital structure and is defined as the cash and cash equivalents less total debt recognised on the consolidated balance sheet.

	2020 \$'000
Cash and cash equivalents (note 16)	62,471
Interest bearing loans	(277,209)
Net debt	<u>(214,738)</u>