



NET *zero* CARBON STRATEGY

KEROGEN
Capital



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Now more than ever before we all need to play our part in delivering a carbon neutral future but the pace of change needs to be accelerated if we are to reach net zero in time.

*Jason Cheng, Co-founder and Chief Executive Officer,
Kerogen Capital*

KEROGEN CAPITAL'S

NET ZERO CARBON STRATEGY

ACCELERATING THE PATH TO A NET ZERO WORLD

Climate change is one of the most challenging and pressing issues of our time. We recognise its critical importance to the future of our planet and support the goal of the Paris Agreement to limit global warming to below 2°C and ideally to 1.5°C. We support the goals of national governments from around the world to achieve net zero carbon economies by 2050 - including the UK, EU, Japan and soon the US, and China by 2060.

As the COVID-19 pandemic has adversely impacted health, livelihoods and economies around the world, this unprecedented disruption has also accelerated the energy transition and presents an opportunity to place carbon neutrality at the heart of business strategies.

On the path to a net zero society there is no “business as usual” for the energy industry. While the renewables sector is set for significant growth, oil and gas consumption is likely to underpin primary energy demand for some time. For the oil and gas industry to remain sustainable, however, it is essential that it reduces its emissions footprint by adopting a carbon-light investment strategy, spearheading new innovation and technologies to create decarbonisation solutions – such as hydrogen, carbon capture and storage (CCS) and floating offshore wind.



DECARBONISATION IS OUR PRIORITY

Our route to decarbonisation at Kerogen is a journey to which we are fully committed. It's one that we started back in 2011 when we removed coal from our investment strategy and later developed a more comprehensive climate-related investment exclusion list in 2017 that sets out our commitment not to invest in high carbon intensity upstream assets and in environmentally sensitive areas such as the Arctic.

Kerogen's Climate-Related Investment Exclusion List

- Mining of coal
- Mining of tar sands
- Projects involving high composition of CO₂ or where the CO₂ cannot be sequestered or otherwise treated
- Environmentally sensitive areas such as the Arctic

As governments develop policies to achieve a net zero carbon economy by 2050, it is imperative for us to take action now. **Importantly, Kerogen was able to immediately achieve carbon neutrality on a Scope 1 and 2 basis in 2020.**

Kerogen recognises that carbon offsetting is not the long-term solution to climate change. Our ongoing priority will be to reduce the direct carbon impact of our operations through operational strategies; however, we do support the use of offsets as part of an overall plan to reduce our carbon impact.

The actions we take today have a multiplier effect in the future and have the potential to accelerate the path to achieving net zero.

Our first step is to operate on a carbon neutral basis for Scope 1 and 2 emissions within:

- our own business, the Kerogen fund manager
- the current vintage fund portfolio as a whole
- our two largest controlled portfolio companies, Zennor Petroleum and Pandion Energy. They are among one of the first E&P companies to become carbon neutral in the UK and Norway respectively

In addition, we are committing to making all future fund vintages and investments carbon neutral.

OUR STRATEGIC PRIORITIES FOR A NET ZERO CARBON FUTURE

For Kerogen's commitment to have impact, a comprehensive plan has been developed based on the following strategic priorities:

- 1 Adhering to a carbon-light investment strategy.** This includes climate related criteria in the screening of investments, stewardship around climate related strategy including plans to reduce carbon emissions during the ownership of assets, and finally factoring in the potential for repurposing and recycling of infrastructure to facilitate development of hydrogen, CCS, offshore wind and renewable electricity projects.
- 2 Reducing the carbon intensity of operations.** We have already started implementing measures to support carbon reduction in our portfolio and are targeting a 50% reduction in carbon intensity from our producing portfolio by 2030. The reduction is expected to be achieved from a combination of decarbonisation initiatives including: energy consumption efficiency; digitalisation and optimisation of facilities; electrification; and where relevant, solutions for flaring, venting and fugitive emissions.
- 3 Committing to transparent climate related reporting.** We support the Task Force on Climate-related Financial Disclosures (TCFD) and aim to align our disclosures with the recommendations set out by TCFD from 2021.
- 4 Impactful offsetting of our remaining carbon emissions.** We have made a commitment to use high quality carbon offsets for any remaining short-term emissions to achieve carbon neutrality immediately. We note that offset funding could accelerate nature-based solutions and other decarbonisation programmes while also supporting the delivery of a number of United Nations Sustainable Development Goals.
- 5 Advocating for industry change.** Although we are a relatively small organisation, we believe that all companies in the energy sector - regardless of size - have a role to play. As a private equity firm, Kerogen recognises that investing responsibly in energy means committing to a carbon neutral future. We strongly believe this will ultimately deliver greater value for our stakeholders and returns for our investors. However, we cannot succeed if we do this alone and we encourage peers in private equity and energy industries to adopt this same commitment. We are committed to working with our investee companies, their joint venture partners, our peers, regulators, lenders, investors and other stakeholders to promote and accelerate decarbonisation.

KEROGEN'S DECARBONISATION STRATEGY

1 Adhering to a Carbon-light Investment Strategy

Investment Selection

As part of our carbon-light investment strategy, our project screening and review process determines which investments will be funded. Criteria include the following:

- **Management and partner alignment:** the commitment to and track record on ESG and decarbonisation by management teams as well as alignment of the underlying partners and operators at the asset level;
- **Geography:** countries with published net zero carbon targets and clearly defined climate change strategies and policies are preferred;
- **Subsurface:** focus on inherently low CO₂ reservoirs;
- **Potential greenhouse gases (GHG) reduction measures:** focus on opportunities with GHG reduction potentials, for example through improving uptime and efficiency by digitalisation, platform electrification or switching to power from renewables, alternative environmental management strategies; and
- **Long-term repurposing potential:** identify projects with potential to repurpose for zero or carbon negative projects such as CCS, hydrogen and offshore wind integration.

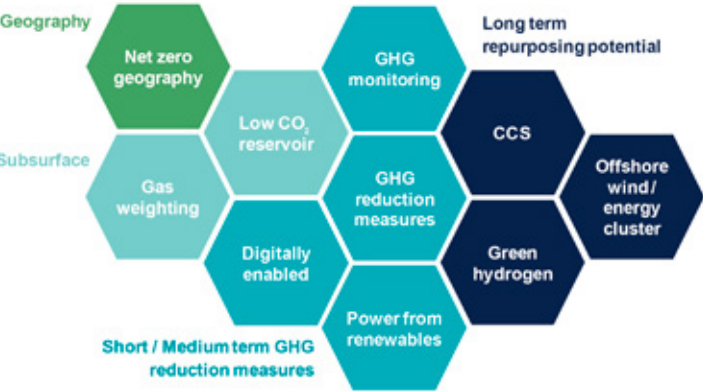
These criteria further enhance our existing climate-related investment exclusion list.

Portfolio Management

We aim to ensure that each portfolio company's strategy and management remain aligned with Kerogen's own carbon neutral strategy:

- a. First, **by ensuring that a commitment to a carbon neutral target is adopted by our portfolio companies** as a corporate objective and that implementation is cascaded throughout the organisation. This includes an appropriate measurement and reporting framework, adequate resourcing and senior oversight, and ESG-linked remuneration targets.
- b. Secondly, **aligning our asset management strategy with a carbon neutral commitment.** As an investor, this means adding carbon intensity as a key factor in determining the attractiveness of an investment as well as forming the basis of post-investment management of the assets.
- c. Thirdly, **managing the carbon footprint through improving reporting and disclosure,** setting near and long-term targets and developing initiatives to reduce carbon intensity. We encourage impactful offsetting of the remaining carbon emissions to achieve carbon neutrality immediately.
- d. Finally, **evaluating strategic opportunities to contribute to a net zero carbon future** such as assets, projects or partnerships that could catalyse the development of hydrogen and CCS industries, promote the decarbonisation of power generation or facilitate customer adoption of lower carbon products or solutions.

Kerogen's carbon-light investment strategy



50% reduction in carbon intensity from our producing portfolio by 2030



2 Reducing the Carbon Intensity of Operations

As a private equity manager, our holding period for investments is typically less than ten years. As such, climate change targets that span a decade or more are difficult for us to control directly. However, we will ensure responsible carbon reduction targets and initiatives are taken during our stewardship of each portfolio company both to deliver shorter-term targets and create a legacy for the future owners of these businesses.

- Many countries in which our portfolio companies operate have targeted a 50% reduction in carbon emissions by 2030. We will adopt this wherever applicable, for example, across all operated producing assets. However, targets will depend on the individual company or asset depending on the baseline carbon intensity.
- We will ensure that investment decisions and future business planning take into account an internal carbon cost projection in order to better quantify the impact of these initiatives and evaluate the risks and potential returns from any investment.
- For our own operations at the fund level, we are committed to reducing our emissions by minimising business air travel (Scope 3), which is by far the largest contributor to our carbon footprint, through increased use of videoconferencing.

3 Committing to Transparent Climate Related Reporting

As a signatory of the United Nations-supported Principles for Responsible Investment (PRI) since 2014, Kerogen supports the adoption of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) both for ourselves and our portfolio companies.

We aim to align with the recommendations set out by the TCFD, ensuring that we disclose our strategy, governance, risk management approach and performance metrics on climate-related impacts to investors and other stakeholders, on an annual basis.

We promote the adoption of TCFD within our investee companies and encourage our joint venture partners and operators within the portfolio to adopt carbon reporting.

4 Impactful Offsetting of our Remaining Carbon Emissions

Becoming carbon neutral is a journey that requires changes to a firm's strategy and organisation. However, whilst we wait to see the impact of these changes, for those remaining short-term emissions we have made a commitment to use high quality carbon offsets to achieve carbon neutrality immediately. To ensure the environmental integrity of offsets, the emphasis going forward will be on carbon removal offsets that are in-line with the Oxford Principles for Net Zero Aligned Carbon Offsetting.

The sole use of carbon offsets to achieve carbon neutrality without any strategic change or decarbonisation efforts within a business could be labelled "greenwashing". Offsets and decarbonisation activities should be seen as complementary actions not substitutes.



Offsets have two significant benefits:

a. Offset funding can accelerate nature-based solutions and other decarbonisation programmes

The World Economic Forum in 2020 announced a campaign to grow, restore and conserve one trillion trees around the world to counteract around 10 years of anthropogenic CO₂ emissions. This increases natural carbon sink capacity and importantly creates co-benefits for increased biodiversity, improving the quality and quantity of water sources, reducing soil erosion and improving the lives of indigenous communities. Offset funding can facilitate decarbonisation of energy through promoting emissions reduction and carbon removal projects that may not otherwise be financed. While governments and the development community have an important role to play, the potential funding from the business community for impactful carbon offsets could be a game changer.

b. Carbon offsets can support the delivery of a number of United Nations Sustainable Development Goals (SDGs)

As an organisation we are committed to aligning our business with the SDGs. An element of this alignment is through our carbon offsetting programme. Projects funded by offsets have a number of benefits in addition to emissions reduction, such as increased health benefits from avoided pollution, job creation and poverty alleviation. One such example is the clean cookstoves initiative which forms one of our emission reduction offsets. This helps in very practical ways to reduce pollution and health issues - particularly among women and children in developing countries. Kerogen supports the following SDGs:

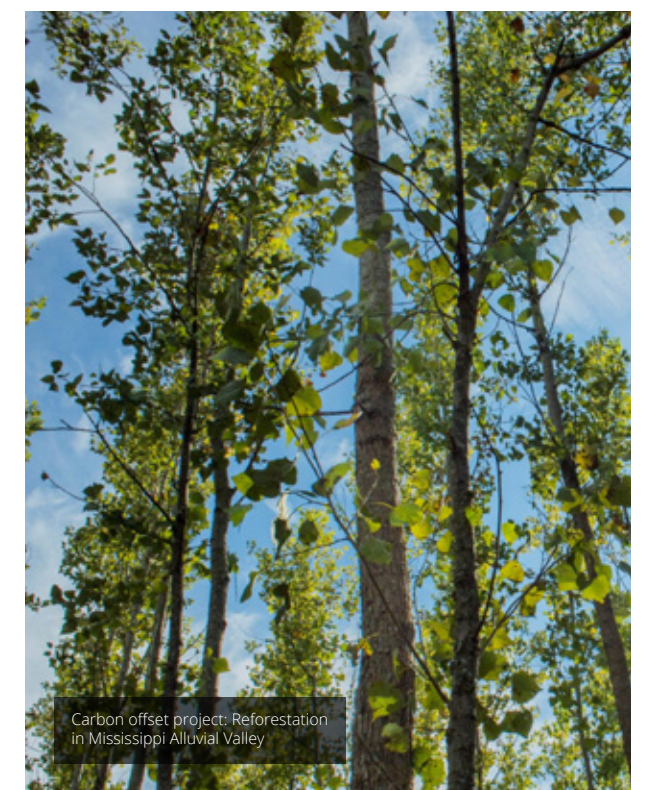


5 Advocating for Industry Change

Advancing the energy transition requires collaborative efforts by all stakeholders. We aim to use our platform to drive change within the industry and we will work with our peers in the energy and private equity industries, investors, governments and other stakeholders to support the transition to a lower carbon future.

As part of this commitment, we aim to:

- advocate for peers in the energy and private equity industries to adopt carbon neutral targets, measure emissions and set reduction targets, and develop their own low carbon investment strategies;
- increase transparency by better disclosures on emissions across partners and supply chains;
- work with regulators and governments to assist in the development of decarbonisation regulation, infrastructure and industry policy; and
- provide opportunities for investors to provide risk capital for decarbonisation innovation and industries.



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A carbon-light strategy has always been an imperative for us as a Norway focused E&P company. As the rest of the world starts to move closer to Norway's leading position on carbon emission reduction we will continue our work to minimise our footprint and support other players in the sector to do the same.

Jan Christian Ellefsen,
CEO, Pandion Energy



A spotlight on Valhall & Hod: Pandion Energy's net zero strategy in practice

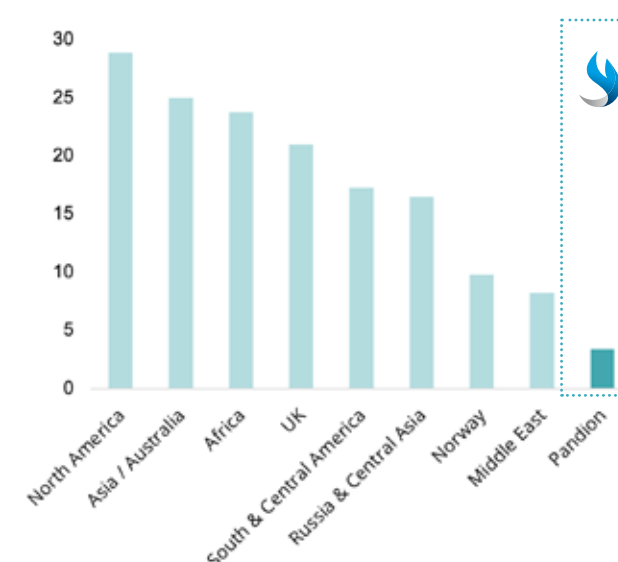
CASE STUDY PANDION ENERGY

Founded in 2016, Pandion Energy is a full-cycle exploration and production company focused on the Norwegian continental shelf (NCS) delivering value by maturing resources to reserves in high quality assets. Pandion has a net zero carbon strategy and is one of the first E&P companies on the NCS to achieve carbon neutrality (2020).

Pandion's portfolio comprises a 10% interest in producing fields Valhall and Hod (a top 10 field in the NCS) and interests in eight exploration licences. The company also participated in the discovery and subsequent monetisation of a 20% interest in the Duva development project.

Since inception, Pandion's strategy has been to become an active and responsible partner to create further stakeholder value and a key component of that approach has been investing in projects that are placed on the lower end of the carbon intensity curve. Pandion's carbon intensity level per barrel is some of the lowest in the global E&P industry at 3.4kg CO₂/boe – this is about three times lower than the Norway average of 9.8kg CO₂/boe.

2019 GHG Emission Intensity (kg CO₂ equivalent per boe produced¹)



Pandion's producing assets in the central North Sea, Valhall and Hod, have been powered from shore since 2012, originally eliminating annual turbine emissions of approximately 320,000 tonnes of CO₂ and 600 tonnes of NO_x. The electricity is acquired from the national power grid in Norway which is principally underpinned by hydropower and other renewable energy sources. As Norway is a historic net exporter of electric power, the associated CO₂ emissions are close to zero.

Additionally, the Valhall field centre has been set up to accommodate long term rig hires with electricity procured through the 294 km cable from Lista on the coast of Norway. In 2017, the jack up rig, Maersk Invincible, was the first mobile drilling rig in the world to run using onshore power. This delivered further emissions reduction of 15,000 tonnes CO₂ and 168 tonnes NO_x annually.

Despite being a partner in an asset with one of the lowest carbon emissions in the world, Pandion remains committed to ongoing emissions reduction measures across its portfolio to support the ambition of delivering a carbon neutral world. Within their current production portfolio these measures may typically include:

- further electrification of individual components, utility units or long-term hire rigs;
- increased energy efficiency and further reduction of flaring by optimising operations through digitalisation and new operating models; and
- evaluating opportunities for infrastructure repurposing for offshore wind.

Looking ahead, Pandion Energy has committed to maintaining a carbon-light strategy and has aligned its investment criteria with its ambition to maintain a low carbon footprint. This includes:

- pursuing exploration and appraisal opportunities only in areas with existing or plausible future access to renewable energy sources;
- incorporating GHG emissions and the potential for future carbon reduction as new investment criterion for development and production assets; and
- incorporating cost of carbon in evaluating new investments where renewable energy sources are not available.

¹ IOGP (International Association of Oil & Gas Producers), UK Oil and Gas Industry Association, Norwegian Oil & Gas Association / Norwegian Petroleum Directorate, Aker BP.

CASE STUDY

ZENNOR PETROLEUM

Tell us a little bit about how you achieved carbon neutrality in 2020?

We are proud to have achieved carbon neutrality for Zennor's net production in 2020, certainly one of the first E&Ps in the UK North Sea to have reached this milestone.

We support the goals of the Paris Agreement and are fully behind the UK legislative framework requiring net zero by 2050.

However, we do appreciate this is the very start of our journey. We've prioritised the use of offsets in 2020 to help us reach carbon neutrality immediately whilst at the same time putting in place a programme to reduce our direct emissions in the future. This includes setting targets across the following four areas:

- Governance and Reporting;
- Non-Operated Production;
- Operated Projects; and
- New Business.

We have introduced an ESG Committee at board level to ensure climate-related risks and opportunities are proactively identified and addressed.

How do you intend to reduce your emissions next year and beyond?

Our ambition is to reduce the use of offsets to achieve net zero as we move forward with our emissions reduction plans.

Being an active and engaged partner:

We promote and support the operators of our producing assets on their decarbonisation initiatives including looking at platform electrification and well as future repurposing of offshore oil and gas facilities to support new technology development.

Integrating net zero planning into our operations:

We are integrating net zero planning into the business approach for our operating assets. We have introduced processes and procedures to ensure that Scope 1 and 2 emissions and potential GHG emissions are evaluated and

incorporated as a key decision-making criteria for portfolio management, acquisitions, and divestments.

How are you going to ensure you achieve net zero Scope 1 and 2 GHG production emissions by 2050?

Transparency and accountability are going to be critical for this industry to demonstrate its commitment to playing its part in solving the climate change challenge. And part of the solution is putting in place the right mechanisms and processes internally towards fully TCFD compliant.

TCFD is the most rigorous and comprehensive framework for climate-related reporting. As a relatively small business, our journey to full compliance will take a little time. We have completed a gap analysis in 2020, and will aim to produce our first climate disclosure report in 2021 which aligns with the recommendations set out by the TCFD.

Has emissions reduction always been a priority for you as someone with significant experience in the oil & gas industry?

I've always aimed to conduct all aspects of my job with complete integrity, be that financially, contractually, or environmentally.

Since starting out as a drilling engineer in 1991 with ARCO I've been lucky enough to experience most aspects of our business. I've seen how our business interacts with the people and the environment it touches and I like to think I understand something of how important those interactions are.

Man-made climate change is scientific fact and the world must move to counter its worst potential impacts. And yet this must be done in a way that recognises the UK's ongoing need for oil and gas in the medium-term as set out by the UK's Committee for Climate Change. As such, delivering net zero will require immense political, economic and societal change and I pledge that myself and Zennor will play our full part as a responsible partner in this transition with a stringent focus on how we deliver the lowest carbon barrels into a net zero world.

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I'm passionate about Zennor contributing to the UK's Oil & Gas industry as a key partner in delivering a net zero future.

*Martin Rowe,
Managing Director, Zennor Petroleum*

Acting with integrity means thinking about our operational impact through the lens of a multitude of stakeholders. I'm passionate about making the UK's O&G industry a key partner in delivering a net zero future and I'm looking forward to working with Kerogen, the OGA and wider industry to share lessons-learned, innovation and best practice in order to achieve it.



Zennor: Transocean 4th generation rig drilling Finlaggan producer wells

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