NEO Energy (UKCS) Limited

Report and Financial Statements

For the year ended 31 December 2021

Registered number: 02669936

NEO Energy (UKCS) Limited

Report and Financial Statements
For the year ended 31 December 2021

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NEO Energy (UKCS) Limited

Directors and Advisers

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Russell Alton
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Martin Rowe

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NEO Energy (UKCS) Limited

Strategic Report

The directors present their Strategic Report and the audited financial statements for the year ended 31 December 2021.

Principal activities

NEO Energy (UKCS) Limited (the 'Company') is involved in the exploration and production of offshore oil and gas prospects in the UK North Sea. The Company is continuously seeking opportunities to acquire production and development licenses in the UK North Sea. The Company is a 100% subsidiary of NEO Energy Upstream UK Limited and is part of the NEO group ("NEO" or "the Group"), headed by NEO Energy Group Limited.

Business review

As at 31 December 2021, the Company had interests in the Western Isles oil and gas field. The Company withdrew the Hudson license in Q2 2021.

The Company results for the year are shown in the Income Statement on page 14. The profit for the financial year was $10.6 million (2020: $36.2 million) which included the recognition of $8.8 million charge for deferred tax (2020: $9.1 million).

Revenue was $45.9 million for the year compared with $63.4 million in 2020. The 2021 revenue comprised $42.2 million from the Western Isles asset (2020: $55.6 million) and $4.0 million from the Hudson asset (2020: $7.8 million).

Revenue reduced by 24% compared with the previous year due to the combined impact of a 38% reduction in the production volumes produced by Western Isles asset as a result of field decline however offset by an increase in the realised oil prices in 2021. The average realised oil price in 2021 being $77 per barrel compared with $41 per barrel in 2020.

The cash balance at the end of 2021 was $0.1 million (2020: $0.8 million). Net assets at the end of 2021 were $560.4 million (2020: $550.0 million)

Effective from 1 January 2021, the Company adopted hedge accounting under IFRS 9 as disclosed in the note 5 and accounting policies.

Key performance indicators

The NEO Group manages its operations centrally on an area basis. For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The key performance indicators of the Group are discussed in the NEO Energy Group Limited financial statements and do not form part of this report.

Outlook for 2022

On 1 April 2022, in accordance with the intra-group sale and purchase agreement between the Company and NEO Energy (UKCS) Limited, NEO Energy Production UK Ltd transferred its interest in Golden Eagle field to the Company at its net book value together with any associated asset and liabilities. The consideration for the transfer was the net book value of the Business and Interests, part of which was satisfied by a novation of certain of the Company's intra-group debt liabilities owed by it to NEO Energy Upstream UK Limited, the immediate parent.

Other than above, no significant change in the business of the Company is expected in the foreseeable future.

Decision making and stakeholder engagement

The Company's success depends on the ability to engage effectively with stakeholders. The Company's Directors consider, both individually and collectively, that they have acted in good faith, taking actions to promote the success of the Company for the benefit of its members as a whole, having regard to matters set out in section 172(1) (a) to (f) of the Companies Act in the decisions taken during the financial year ending 31 December 2021.

The strategic priorities and business portfolio are managed and reviewed at the NEO Energy Group (NEO) level by the Board along with the Executive Leadership Team. This collaborative approach by the Board, together with the Board's approval of the Group's strategy, helps it to promote the long-term success of the Group. Ultimately Board decisions are taken in the best interest of the long-term financial success of the Group and its shareholders, employees, the environment, suppliers and customers. The processes are consistent with those of the NEO group and further details are included in the NEO Group's financial statements.

Performance

The Board's goal is to protect its people, the public, the Group's assets, and the environment in which they work and live, therefore maintaining its reputation. This commitment is in the best interests of the employees and all associated stakeholders. It also focuses on maintaining financial discipline and delivering strong earnings, cash flow and shareholder value.

The Board regularly monitors a range of safety performance metrics. There were no significant environmental or safety HSE incidents in 2021.

Governance

NEO's Board, led by the Chairman, believes that strong governance is essential to the success of the Group and is responsible for NEO's overarching environmental, social and governance (ESG) strategy. The Board is made up of individuals with diverse skills, industry relevant experience and knowledge, and is accountable for the strategic direction and long term success of the Group and for ensuring long term value to the shareholders.

The Board delegates a number of its responsibilities to its committees, with the Chair of each committee formally reporting on proceedings:

- **Technical & Commercial Assurance Committee** (TCAC) evaluates assets and potential investments for strategic, financial, operational, and reputational impact. ESG-related aspects, including climate-related impacts, regulatory requirements and the Emissions Trading Schemes (EU ETS / UK ETS) are regularly included in TCAC's reviews.

- **Audit & Risk Committee** (ARC) Material business risks and opportunities identified by the group, including those relating to climate change, are presented and discussed with the ARC quarterly. The responsibilities of the Audit and Risk committee includes reviewing the financial statements of the Company before they are presented to the Board for approval. The Committee also reviews the quality and adequacy of the Group's systems for internal control and financial reporting process.

- **Remuneration Committee** reviews salaries, compensation, and bonus structures. The bonus structure is based on individual and company performance. Considerations for the Group performance include cash flow, production, and health and safety. Climate change KPIs are also being considered in remuneration evaluations.

- **ESG subcommittee** is entirely focused on ESG to define behaviours that shape actions of leadership and teams to attain to related goals. The Group meets when required to discuss issues related to ESG and assess progress achieved.

The Board will continue to assess and monitor culture within the Group and will look to obtain useful insights through effective dialogue with the Group's key stakeholders and taking feedback into account in the Board's decision-making process.

In December 2021, the Group finalised its ESG strategy further cementing the Group's commitment to strong governance. The strategy aims to maintain the highest standard of ethics, integrity and transparency at all levels. In alignment with this, the Company adheres to an Anti-Bribery policy and Code of Conduct which is based on leading international standards for responsible business conduct, including the UN Global Compact and the UN Guiding Principles on Business and Human Rights.

Environment

As part of its ESG strategy, the Group recognises the importance of partnerships with stakeholders including employees, contractors, regulators, JV partners, industry bodies and societies, in order to achieve goals. This is especially important for achieving NEO's Low Carbon Transition Plan of carbon intensity reduction by 50% by 2030 and net zero by 2050, which can only be reached through collaboration on alternative power solutions, technology development and full or partial electrification.

NEO Energy (UKCS) Limited

The Group's Low Carbon Transition Plan was released in March 2021 recognising the importance and challenges of climate change and the role that the oil and gas sector needs to play to mitigate global temperature rise. NEO is aligned with the UK Oil & Gas Authority plan for Maximising Economic Recovery (MER) and reaching Net Zero.

The Group's approach centres on increasing the longevity of the assets by conducting highly efficient and cost-effective extractive practices, improving operational efficiency, actioning carbon abatement projects and taking a full lifecycle approach. The Group's governance culture encourages a proactive approach to deliver continuous improvement.

Risk management

The Company's is managed collectively with the rest of the NEO group through the Group's risk management process. NEO is committed to controlling risk and optimising opportunities by using a robust risk management framework and system of internal control. The risk management framework is an integrated part of the Group's strategic and operational management and is based on the ISO 31000 standard and is designed to:

- support NEO's vision and values, regulatory requirements, corporate commitments, safe and compliant operation of assets and protect NEO's industry reputation.
- ensure uniform, efficient and suitable processes to identify, manage and report significant risks and opportunities that may affect the Group's objectives; and
- allow informed decision making, prioritisation of control activities and resources to deal effectively with any risks or opportunities.

The Board of Directors is ultimately responsible for risk management within NEO with day-to-day management of risk delegated to the CEO. NEO manages risk within the risk appetite levels set by the Board. Risk appetite determines the nature and level of risk that the Group is willing to take in pursuit of its strategic objectives.

Principal risks and uncertainties

The Principal Risks are those which are of greatest importance to NEO, consequently principal risks are sponsored by members of the Executive Leadership Team (ELT) and regularly reviewed with the Board. Principal Risks are categorised as either:

- Operational – arising from or impacting the day-to-day operations
- Strategic – impacting the strategic objectives of the Group
- External – arising from the external environment e.g. legislation.

Operational Risks

<u>Health, safety and the environment (HSE)</u>

Risk: The nature of the Group's operations is inherently complex, with HSE risks and hazards covering many areas including asset integrity, process safety and well control incidents impacting on people and the environment.

Mitigation: The Group's most significant exposure is its operated assets. At these assets, NEO has in place a Safety Case and HSE management plan to ensure that all operations are conducted to high industry standards and procedures. The Group also seek to ensure that all contractors have the appropriate systems and procedures in place to ensure safe operations.

To mitigate risks associated with hydrocarbon releases and pollution, Oil Pollution Emergency Plans are approved for all operations and relevant training and exercising plans are implemented. Any incident that occurs during operations is fully investigated by the Group and/or its contractors to ensure that any remedial actions that are identified are fully acted upon and implemented. The Company is also a member of The Offshore Pollution Liability Association Limited (OPOL).

The Group also has in place comprehensive insurance policies to cover any damage or losses which may occur during operations and to cover the costs of any major environmental issue, subject to deductibles and limits. At NEO's non-operated assets NEO actively monitors performance of the operator to ensure high HSE standards and to act if those standards are not met.

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Production and reserves

Risk: The level, quality and production volumes from the Group's oil and gas reserves could vary from the reserves quantities on which the reserves estimates have been based prove incorrect.

Mitigation: In order to mitigate the inherent geological risks facing the Group it employs qualified and experienced experts in the geoscience fields. It applies the latest technologies to interpret data and works with skilled contractors with extensive experience in working in the areas it is operating in. Whilst this risk can never be fully mitigated, the Group focuses on mature hydrocarbon bearing provinces and exploring prospects with proven productive analogues in regions with established infrastructure. Once discovered, the Group's estimated recoverable reserves are verified by independent qualified engineering firms.

Organisation design and capability

Risk: The organisation is not equipped with the correct people, systems or processes to deliver successfully.

Mitigation: To attract and retain key talent NEO has a competitive reward package supported by talent development, performance management programmes and a safe and attractive working environment. The NEO Management system has been designed to enable critical activities to be identified and managed so that risks to the health and safety of employees and to the environment are reduced to a level deemed to be as low as reasonably practicable (ALARP).

Strategic Risk

Project execution and delivery

Risk: NEO Energy's success is partially dependent on its ability to successfully develop new projects, on time and on budget.

Mitigation: There are dedicated experienced project management team(s) and effective project management systems governing project execution. Governance structure ensures oversight of project delivery allowing timely corrective intervention if required. Project managers are in place to manage partner relationships and to gain alignment on the selection and prioritisation of projects.

Financial Risks

Liquidity and funding

Risk: Cost overruns, production underperformance or reduced access to debt funding sources leave NEO unable to fund its commitments.

Mitigation: NEO actively monitors its liquidity position and the company's strategic plan, and investment decisions are evaluated under a range of operational and economic scenarios to ensure the business can fund all its commitments. NEO has a strong cash position, a supportive shareholder and a good reputation with its banking Company, supporting continued access to capital should it be required. Management oversight of asset performance and robust internal control processes reduce likelihood and impact of cost overruns and production shortfalls.

Commodity price and currency risk

Risk: The Group is exposed to fluctuations in oil and gas prices and currency movements affecting its near-term cash flows from production, the long-term return from investments and also the level of borrowing available under the Group's Reserve Based Lending facilities.

Mitigation: The Group makes long term investment decisions with a great degree of uncertainty over the price it will achieve for the sale of its oil or gas. Investment decisions are only undertaken following a rigorous review of project economics. These reviews will consider a range of commodity price scenarios.

The Group has a hedging programme to mitigate its exposure to fluctuations in oil and gas prices and foreign exchange rates, in accordance with a Board-approved Hedging Policy and also to adhere to minimum hedging levels required by Reserve Based Lending facilities. Hedges to mitigate exposure to fluctuations in oil and gas prices will typically cover a proportion of anticipated production over periods of up to three years, with declining percentages of cover for each successive future period. NEO also selectively hedges currency, interest rate and carbon price exposure where appropriate.

External Risks

Cyber security

Risk: The threat of cyber security attacks is continuing to increase across all industries. Cyber security intrusions have the potential to compromise internal networks and systems, potentially leading to interruptions in the Group's activities, financial loss, loss of confidential data and reputational damage.

Mitigations: The Group's networks are designed and monitored to detect and prevent external cyber-attacks. Third party cyber security specialists are used to carry out testing of business critical systems and all staff and contractors are required to undertake cyber security training.

Climate change

Risk: The impacts of climate change and associated legislative changes may give rise to a number of risks that will affect the oil and gas industry, in particular:

- increased costs to meet regulatory requirements and internal commitments to reducing carbon intensity,
- reduction in funding due to pressure on investors and banks to meet their own climate commitments,
- extreme weather events may become more frequent impacting operational capability, disrupting supply chain and reducing accessibility for maintenance and crew transfer
- longer term reduction in demand for oil and gas.

Mitigations: Climate-related risks and associated mitigation strategies and actions are assessed at Board and Executive Leadership team levels. Environmental, Social and Governance key performance indicators, including carbon emission figures are monitored to deliver performance improvements and to minimise the impact from the Group's operations. A Board sub-committee for ESG has been established to support the board on ESG related matters. Response plans are in place for NEO's assets to mitigate the impact of extreme weather events.

NEO is aligned with industry bodies to support the UKCS move towards Net Zero greenhouse gas emissions and has developed a Low Carbon Transition Plan which includes two key ambitions; firstly, reduce the carbon intensity per barrel of oil equivalent produced by the portfolio by 50% by 2030 and secondly to be Net Zero by 2050. NEO will achieve this by investing in technology and systems, such as full or partial electrification, and collaborating with partners and industry associations to explore carbon abatement opportunities.

COVID-19 pandemic

Risk: Operational restrictions placed on the Company's producing assets and/or the supply chain as a result of the spread of COVID-19 may have a material impact on NEO's production and cashflow. The restrictions could lead to production shutdowns or delays in obtaining critical equipment for capital projects.

Mitigations: To minimise the risk, personnel on the Company's offshore facilities have been reduced and the stewarding/cleaning regimes increased, social distancing measures are in place and Oil & Gas UK (OGUK) guidance is being followed. Measures have also been taken to minimise the risk of infected personnel travelling offshore and in the event of a suspected case arising, the ability to isolate and transport to shore any individuals. The approach for staff returning to the offices during 2021 has remained in line with English and Scottish Government requirements.

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Regulatory and fiscal change

Risk: Changes in the regulatory or fiscal environment could impact the Company's ability to deliver its strategy.

Mitigations: NEO Energy participates in industry associations and bodies, such as Oil & Gas UK (OGUK), UK Oil Industry Taxation Committee (UKOIT) and Association of British Independent Oil Exploration Companies (BRINDEX), who engage with the government on behalf of the industry. The Company also participates in fiscal change consultations.

Approved and signed on behalf of the Board.

DocuSigned by:
Rob Adams
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Robert Adams
Director
12 August 2022

NEO Energy (UKCS) Limited

Directors' Report

The directors present their report and audited financial statements for the year ended 31 December 2021.

Dividends

The Company's profit for the year was $10.6 million (2020: $36.2 million). No dividends were paid or are proposed for the year (2020: $nil).

Company funding and going concern

The financial statements have been prepared on the going concern basis. Further information relating to the going concern assumption is provided in note 2, including the basis of the Directors' assessment of the Company's ability to continue as a going concern.

Streamlined energy and carbon reporting

The Company has taken exemption for Streamlined Energy and Carbon Reporting, in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, as a subsidiary undertaking of NEO Energy Group Limited which has the same reporting period. Detailed streamlined energy and carbon reporting disclosures are included within the annual report of NEO Energy Group Limited.

Financial risk management

The Company's operations expose it to financial risks, including the effects of changes in commodity prices, foreign exchange rates and interest rates. The Company has a risk management strategy in place which includes regular monitoring of financial risk exposure and undertaking hedging activities when appropriate (see Strategic Report).

Directors

Directors who served during the year and up to the date of signing the financial statements were as follows:

Andrew McIntosh	
Robert Adams	
Paul Harris	
Russell Alton	
Martin Rowe	(Appointed: 26 August 2021)

None of the directors had any interest in the share capital of the Company during the year.

The directors benefit from qualifying third party indemnity provisions in place during the year and at the date of this report.

Post Balance Sheet Events

On 8 June 2022, by way of a special resolution, the Board approved the cancellation of 342,206,520 of the issued ordinary shares of £1.00 each.

Dividends
On 15 June 2022, the Board approved a dividend payment of $446.8 million.

Asset transfers
On 1 April 2022, the Company entered into the intra-group sale and purchase agreements with NEO Energy Production UK Ltd for transfer of certain assets as disclosed in the Strategic Report.

Windfall tax
On 25 May 2022, the government announced the introduction of the Energy Profits Levy (EPL), effective 26 May 2022. At the balance sheet date, the proposal to introduce the EPL had not been substantively enacted, therefore its effects are not included in these financial statements. It was however subsequently substantively enacted on 14 July 2022.

Had it been substantively enacted by the balance sheet date it would have decreased the deferred tax asset for the period by $15.1 million and increased the tax expense by $15.2 million.

The Company has considered its supply chain and operational activities in light of the Russia/Ukraine war and do not believe that there will be any significant impact on the business.

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

NEO Energy (UKCS) Limited

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Approved and signed on behalf of the Board.

DocuSigned by:
Rob Adams
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Robert Adams
Director
12 August 2022

NEO Energy (UKCS) Limited

Independent auditors' report to the members of NEO Energy (UKCS) Limited

Report on the audit of the financial statements

Opinion

In our opinion, NEO Energy (UKCS) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2021; the Income Statement, the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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 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.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

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Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

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.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK Tax Legislation and the Petroleum Act 1998, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries to increase revenue or profitability. Audit procedures performed by the engagement team included:

- Enquiries of management around known or suspected instances of non-compliance with laws and regulations, claims and litigation, and instances of fraud;
- Understanding management's controls designed to prevent and detect irregularities;
- Review of board minutes;
- Challenging management on assumptions and judgements made in their significant accounting estimates;
- Identifying and testing journal entries with specific focus on entries containing unusual account combinations in response to the risk of management override of controls;

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Bruce Collins

Bruce Collins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
12 August 2022

NEO Energy (UKCS) Limited

Income Statement
Year ended 31 December 2021

	Note	2021 $'000	2020 $'000
Revenue	5	**45,927**	63,369
Cost of sales		**(40,137)**	(51,256)
Gross profit		**5,790**	12,113
Other operating gain	6	**-**	27,505
Impairment reversal		**-**	8,916
Administrative expenses		**(7)**	(43)
Foreign exchange gain / (loss)		**68**	(194)
Gain on disposal of assets		**351**	-
Operating profit	7	**6,202**	48,297
Finance income	9	**-**	218
Finance costs	10	**(4,398)**	(3,147)
Profit before taxation		**1,804**	45,368
Tax on profit	11	**8,834**	(9,126)
Profit for the financial year		**10,638**	36,242
Attributable to:			
Owners of the parent		**10,638**	36,242

Statement of Comprehensive Income
For the year ended 31 December 2021

	Note	2021 $'000	2020 $'000
Profit for the year after tax		**10,638**	36,242
Items that may be classified to income statement:			
Fair value movement on cash flow hedges		**(484)**	-
Tax on cash flow hedges	16	**245**	-
Total other comprehensive expense for the financial year, net of tax		**(239)**	-
Total comprehensive income for the year		**10,399**	36,242
Attributable to:			
Owners of the parent		**10,399**	36,242

The notes on pages 17 to 32 form an integral part of these financial statements.

NEO Energy (UKCS) Limited

Statement of Changes in Equity
Year ended 31 December 2021

	Share Capital	Cash flow hedge reserve	Currency Translation Reserve	Retained earnings	Total Equity
	$'000	$'000	$'000	$'000	$'000
Balance atl January 2020	**446,835**	**-**	**8,286**	**58,675**	**513,796**
Profit for the year	-	-	-	36,242	36,242
Total comprehensive income for the year	-	-	-	36,242	36,242
Balance at 31 December 2020	**446,835**	**-**	**8,286**	**94,917**	**550,038**
Profit for the year	-	-	-	10,638	10,638
Other comprehensive loss	-	(239)	-	-	(239)
Total comprehensive (expense) / income for the year	-	(239)	-	10,638	10,399
Balance at 31 December 2021	**446,835**	**(239)**	**8,286**	**105,555**	**560,437**

NEO Energy (UKCS) Limited

Statement of Financial Position
As at 31 December 2021

	Note	2021 $'000	2020 $'000
Non-current assets			
Property, plant and equipment	12	**180,925**	198,617
Deferred tax assets	11	**53,157**	44,080
		234,082	242,697
Current assets			
Trade and other receivables	13	**419,848**	392,694
Inventories		**4,159**	-
Cash and cash equivalents		**91**	758
		424,098	393,452
Total assets		**658,180**	636,149
Current liabilities			
Trade and other payables	14	**(25,685)**	(25,434)
Provisions	15	**(2,334)**	-
Derivative financial liabilities due to group undertakings	16	**(342)**	-
Net current assets		**395,737**	368,018
Total assets less current liabilities		**629,819**	610,715
Non-current liabilities			
Provisions	15	**(69,382)**	(60,677)
Total liabilities		**(97,743)**	(86,111)
Net assets		**560,437**	550,038
Equity			
Called up share capital	17	**446,835**	446,835
Cash flow hedge reserves		**(239)**	-
Currency translation reserve		**8,286**	8,286
Retained earnings		**105,555**	94,917
Total equity		**560,437**	550,038

These financial statements were approved and authorised for issue by the Board on 12 August 2022 and are signed on its behalf by:

DocuSigned by:
Rob Adams
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Robert Adams
Director

The notes on pages 17 to 32 form an integral part of these financial statements.

Registered no. 02669936

NEO Energy (UKCS) Limited

Notes to the financial statements for the year ended 31 December 2021

1 General information

NEO Energy (UKCS) Limited (the Company) is a Private Company, limited by shares and incorporated and domiciled in the United Kingdom under the Companies Act 2006, registered in England. The address of the registered office is 30 St. Mary Axe, London EC3A 8BF.

The nature of the Company's operations and its principal activities are the exploration and production of offshore oil and gas prospects in the UK North Sea, as set out in the Strategic Report.

The financial statements are presented in United States Dollars ($), which is the functional currency of the Company. The financial statements for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Board dated 12 August 2022.

All values are rounded to the nearest thousand ($'000) except when otherwise indicated.

2 Basis of preparation

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and under the historical cost convention, as modified by derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006. The Company's Financial Statements transitioned to UK-adopted accounting standards on 1 January 2021. There is no impact on recognition, measurement or disclosure in the period reported as a result of this change. The financial statements are presented in accordance with the IFRS adapted format.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

Note 18 gives details of the Company's ultimate parent undertaking and from where the consolidated financial statements of the Group prepared in accordance with UK-adopted International Accounting Standards may be obtained.

The Company has taken advantage of the following disclosure exemptions under FRS 101:
– IFRS 7, 'Financial Instruments: Disclosures'
– Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  (i) Paragraph 79(a)(iv) of IAS 1 'Presentation of financial statements';
  (ii) Paragraph 79(a)(i) of IAS 1 'Presentation of financial statements'; (the number of shares authorised);
  (iii) Paragraph 73(e) of IAS 16 'Property, plant and equipment';
– The following paragraphs of IAS 1, 'Presentation of financial statements':
  – 10(f) (a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements);
– 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements);
  - 38B-D (additional comparative information);
  - 111 (cash flow statement information); and
  - 134-136 (capital management disclosures)
– IAS 7, 'Statement of cash flows'
– Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
– The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more wholly owned members of a Group.
– 101p8(i) & Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).

NEO Energy (UKCS) Limited

Notes to the financial statements for the year ended 31 December 2021

Going concern

The Company is part of the NEO Energy Group Limited (the "Group") and has net current assets of $395.7 million as at 31 December 2021 (2020: $368.0 million), which includes net intercompany loans of $398.9 million (2020: $382.0 million) due to NEO Energy Group subsidiaries. As such it is reliant on continued financial support from the Group. The Directors have received a letter of support confirming that the Group will provide or procure sufficient funds as necessary to allow the Company to continue its operations for at least 12 months after these financial statements are signed.

In preparation of the financial statements, the Directors have made an assessment of the Company and the Group to continue as a going concern. The Company and the Group closely monitors and manages its liquidity risk by producing cash forecasts to ensure that it has sufficient funds to meet forecast cash requirements. Sensitivities are run for different scenarios including, but not limited to, changes in commodity prices and production rates.

The Company's and the Group's going concern assessment covered the period to December 2023. A severe but plausible downside scenario that included a future commodity price downside scenario which includes a severe but staged decrease to an oil price of $60/bbl and a gas price of £1.00 per therm gas from January 2023 through December 2023 was included in the going concern assessment.

The Company's and the Group's going concern assessment also included incorporating the cash for the acquisition of the JX Nippon Exploration and Production (U.K.) Limited by NEO group, the associated refinancing, the executed commodity price hedges in place and the impact of the Energy Profits Levy announced in May 2022. The Company and the Group funded the acquisitions through a combination of debt and existing cash resources. The Company and the Group utilised its current RBL facility by accessing the accordion feature to increase the facility from the current $2.0 billion commitment to $3.5 billion.

The Directors have no reason to believe that material uncertainty exists that may cast doubt about the Company's ability to continue as a going concern or its ability to continue with the current and planned banking arrangements.

On the basis of the above analysis, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the Report and the Financial statements.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. The accounting policies have been consistently applied to the period presented, unless otherwise stated.

New and amended standards and interpretations

During the year, the Group adopted the following new and amended IFRSs for the first time for their annual reporting period commencing 1 January 2021:

- COVID-19-Related Rent Concessions – amendments to IFRS 16, and

In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic.

- Interest Rate Benchmark Reform – Phase 2 – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. With publication of the phase two amendments, the IASB has completed its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The adoption of these standards does not have a material impact on the Group in the current or future reporting periods.

Investments in Joint Operations, Joint Ventures and Associates

The Company is engaged in oil and gas exploration and development through unincorporated joint operations where the parties have rights to the underlying assets and obligations for the liabilities relating to the joint arrangement. In relation to its interests in joint operations, the Company recognises its share of the assets, liabilities and expenses of these joint operations incurred jointly with the other partners, along with the Company's income from the sale of its share of the output and any liabilities and expenses that the Company has incurred in relation to the joint operation.

In addition, where the Company acts as Operator to the joint operation, the gross receivables and liabilities (including amounts due to or from non-operating partners) of the joint venture are included in the Statement of Financial Position.

Revenue recognition

Revenue represents the sales value of the Company's oil liftings and gas deliveries in the year. Oil and gas revenue is recognised when title has passed to the buyer.

Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled to in exchange for those goods or services. The Company has concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for oil and gas products in the normal course of business, net of discounts, customs duties and sales taxes. Typically, payment for the sale of the oil and gas is received by the end of the month following the month in which the sale is recognised. Effective from 1 January 2021, the Company adopted hedge accounting under IFRS 9; therefore, the effects of realised oil and gas hedging are recognised as part of the revenue during the year.

Lifting or offtake arrangements for oil and gas produced by certain of the Company's joint operations are such that each participant may not receive and sell its precise share of the overall production in each year. The resulting imbalance between cumulative entitlement and cumulative liftings is 'underlift' or 'overlift'. Underlift and overlift are valued at net realisable value and included within current assets and current liabilities respectively. Movements during an accounting year are adjusted through cost of sales such that gross profit is recognised on an entitlement basis.

Effective from 1 January 2021, the Company changed its accounting policy for valuing the Company's overlift and underlift oil inventory balances from a lower of cost and net realisable value to the market price of oil at the date of lifting, consistent with the measurement of the sale and purchase. The decision for the change was to align with other peers in the market and the policy being a widely accepted industry practice which therefore provides more reliable and relevant information to the directors. The impact on the comparative information is not material and therefore no comparative information is restated.

In the opinion of the Directors, the operations of the Company comprise one single class of business including oil and gas exploration and production. The Company operates in one geographic area, the United Kingdom Continental Shelf. The financial information presented reflects all the activities of this single business.

Cost of sales

Cost of sales includes depletion, depreciation and amortisation on oil and gas assets, royalties, transportation tariffs and field operating costs. These are recognised as incurred.

Pensions

The Company's employees and directors receive contributions to the Company Defined Contribution Pension Plan which is charged to the Income statement on an accruals basis.

Taxation

The tax expense/credit represents the sum of the current and deferred tax.

Current tax, including UK corporation tax and supplementary tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws enacted or substantially enacted by the balance sheet date.

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

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and assessed to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currency

At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the year.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

Inventory

Inventory consists of material inventory and capital spares and are stated at the lower of cost and net realisable value.

Exploration and evaluation (E&E) expenditure

The Company adopts the successful efforts method of accounting for exploration and evaluation costs which are included within Property, Plant & Equipment.

Pre-licence costs are expensed in the period in which they are incurred. Expenditure directly associated with exploration, evaluation or appraisal activities is initially capitalised. Such costs include the costs of acquiring an interest, appraisal well drilling costs, payments to contractors and an appropriate share of directly attributable overheads incurred during the evaluation phase. For such appraisal activity, which may require drilling of further wells, costs continue to be carried as an asset whilst related hydrocarbons are considered capable of commercial development. Such costs are subject to technical, commercial and management review to confirm the continued intent to develop, or otherwise extract value. When this is no longer the case, the costs are written off as exploration and evaluation expenses in the income statement. When exploration licences are relinquished without further development, the carrying costs are written off through the income statement.

E&E assets are assessed for any impairment which includes the consideration of the period remaining for which the entity has the right to explore, the level of future budgeted expenditure and the level of potential commercially viable reserves to recover the carrying amount of exploration and evaluation assets.

When E&E assets are declared part of a commercial development, related costs are transferred to development and production assets. All E&E assets are assessed for any impairment prior to transfer and any impairment loss is recognised in the income statement.

Property, plant and equipment - development and production assets

For accounting purposes, a field enters into the development phase when the licence enters the commercial phase by having a plan for development and operation. Development and production assets are accumulated on a field-by-field basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from E&E assets as outlined above. All costs in the development phase, including direct costs or cost of own time are capitalised as tangible assets.

Development and production expenditure for the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of the development wells are capitalised as producing oil and gas properties and depreciated using the unit of production method by reference to the ratio of production in the year to the related estimated proven, probable and risked possible reserves, where applicable, future development expenditures necessary to bring those reserves into production. Generally, where property, plant and equipment has been acquired as part of a business combination, the reserves base utilised in unit-of-production calculations is consistent with that used to determine the initial fair value. Any changes in the reserves affecting unit-of-production calculations are reflected prospectively.

At each balance sheet date, the Company assesses assets or groups of assets, called cash generating units ('CGU's), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable. If any such indication exists, the Company makes an estimate of the asset's recoverable amount using a fair value less costs of disposal method. Discounted cash flow models comprising asset-by-asset life of field projections and risks specific to assets, using Level 3 inputs (based on IFRS 13 fair value hierarchy), have been used to determine the recoverable amounts. The cash flows have been modelled on a post-tax basis at management's estimate of a market participant weighted average cost of capital (WACC).
If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to the recoverable amount. The resulting impairment losses are written off to the income statement. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

Property, plant and equipment

Property, plant and equipment, other than oil and gas assets, are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged so as to write off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives as follows:

Office equipment:	3-5 years
Furniture and fittings:	3-5 years

Decommissioning

Provision for future decommissioning costs is made in full when the Company has an obligation: to dismantle and remove a facility or an item of plant; to restore the site on which it is located; and when a reasonable estimate of that liability can be made. The Company's provision relates to the present value of the future decommissioning of production facilities, pipelines and the plugging and abandonment of wells. It is discounted to its present value using a risk free rate.

A decommissioning asset is recognised, within property, plant and equipment. The decommissioning asset is amortised over the life of the underlying asset on a unit of production basis and included within depletion in the income statement. Any change in the present value of estimated future decommissioning costs is reflected as an adjustment to the provision and the oil and gas asset. Where there has been a revision to the estimate of a provision related to an asset that has been fully depreciated, the change in the provision is taken directly to the income statement. The unwinding of the decommissioning liability is included under finance costs in the income statement.

These provisions have been created based on internal and third-party estimates. Assumptions based on the current economic environment have been made which management believe are 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 and regulations at that time. Furthermore, the timing of decommissioning liabilities is uncertain and is likely to depend on the dates when the fields cease to be economically viablc. This in turn depends on future oil and gas prices, which are inherently uncertain.

Transfer within common control

Transfers and acquisitions made by other subsidiaries within the Group are treated as common control transactions and the predecessor value method of accounting is applied. Under the predecessor value accounting method, no purchase price allocation is performed, the acquired assets and liabilities are recorded at their existing carrying values rather than at fair value, and no goodwill is recorded.

Financial instruments

a) Classification and measurement

Financial assets

It is the Company's policy to initially recognise financial assets at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss which are expensed in the income statement.

Classification and subsequent measurement are dependent on the Company's business model for managing the asset and the cashflow characteristics of the asset. On this basis, the Company may classify its financial instruments at amortised cost, fair value through income statement and at fair value through other comprehensive income.

All the Company's financial assets as at 31 December 2021 satisfy the conditions for classification at amortised cost under IFRS 9 except derivative financial instruments which are measured at fair value through profit or loss or fair value through other comprehensive income.

The Company's financial assets include trade receivables, other receivables, derivative financial instruments and cash and bank balances. They are included in current assets, except for maturities greater than 12 months after the reporting date. Interest income from these assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the income statement and presented in finance income/costs.

Financial liabilities

Financial liabilities of the Company are classified and measured at fair value on initial recognition and subsequently at amortised cost net of directly attributable transaction costs, except for derivatives which are classified and subsequently recognised at fair value through the profit or loss or fair value through other comprehensive income.

Fair value gains or losses for financial liabilities designated at fair value through the profit or loss are accounted for as a profit or loss except for the amount of change that is attributable to changes in the Company's own credit risk which is presented in other comprehensive income. The remaining amount of change in the fair value of the liability is presented in the income statement.

The Company's financial liabilities include trade and other payables, derivative financial instruments and interest-bearing loans and borrowings.

b) Impairment of financial assets

Recognition of impairment provisions under IFRS 9 is based on the expected credit loss (ECL) model. The ECL model is applicable to financial assets classified at amortised cost and contract assets under IFRS 15: Revenue from Contracts with Customers. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date, about past events, current conditions and forecasts of future economic conditions.

The Company applies the simplified approach or the three-stage general approach to determine impairment of receivables depending on their respective nature, including intercompany receivables. The simplified approach is applied for trade receivables while the general approach is applied to cash and bank balances.

The simplified approach requires expected lifetime losses to be recognised from initial recognition of the receivables. This involves determining the expected loss rates using a provision matrix that is based on the Company's historical default rates observed over the expected life of the receivable and adjusted forward-looking estimates. This is then applied to the gross carrying amount of the receivable to arrive at the loss allowance for the period.

The three-stage approach assesses impairment based on changes in credit risk since initial recognition using the past due criterion and other qualitative indicators such as increase in political concerns or other macroeconomic factors and the risk of legal action, sanction or other regulatory penalties that may impair future financial performance. Financial assets classified as stage 1 have their ECL measured as a proportion of their lifetime ECL that results from possible default events that can occur within one year, while assets in stage 2 or 3 have their ECL measured on a lifetime basis.

Under the three-stage approach, the ECL is determined by projecting the probability of default (PD), loss given default (LGD) and exposure at default (EAD) for each ageing bucket and for each individual exposure. The PD is based on default rates determined by external rating agencies for the counterparties. The LGD is determined based on management's estimate of expected cash recoveries after considering the historical pattern of the receivable, and it assesses the portion of the outstanding receivable that is deemed to be irrecoverable at the reporting period. The EAD is the total amount of outstanding receivable at the reporting period.

These three components are multiplied together and adjusted for forward looking information to arrive at an ECL which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the related financial assets and the amount of the loss is recognised in the income statement.

Financial liabilities

The Company derecognises a financial liability when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised immediately in the income statement.

c) Modification

When the contractual cash flows of a financial instrument are renegotiated or otherwise modified, and the renegotiation or modification does not result in the derecognition of that financial instrument, the Company recalculates the gross carrying amount of the financial instrument and recognises a modification gain or loss immediately within finance income/costs-net at the date of the modification. The gross carrying amount of the financial instrument is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial instrument's original effective interest rate.

d) Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet. Offsetting can be applied when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right is not contingent on future events and is enforceable in the normal course of business, and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

e) Derivatives

The Company uses derivative financial instruments such as forward exchange contracts to hedge its foreign exchange risks as well as put options to hedge against its oil and gas price risk. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value at the end of each reporting period. Certain derivative financial instruments are designated as cash flow hedges in line with the Company's risk management policies. When derivatives are not designated for hedge accounting or are not designated as accounting hedges, changes in the fair value of the instrument are recognised within the income statement.

Cash flow hedges
The Company entered into a back to back agreement held between the company and the immediate parent company, NEO Energy Upstream UK Limited. As a result, an allocation of both gains and losses arising from derivative trades and future liabilities have been allocated to the Company on a basis of actual and forecasted production respectively.

The effective portion of gains and losses arising from the remeasurement of derivative financial instruments designated as cash flow hedges are deferred within other comprehensive income and subsequently transferred to the income statement in the period the hedged transaction is recognised in the income statement. When a hedging instrument is sold or expires or terminated, any gains or losses are recognised within other operating gains / losses for the period. Any gain or loss relating to the ineffective portion of a cash flow hedge is immediately recognised in the income statement. Hedge ineffectiveness could arise if volumes of the hedging instruments are greater than the hedged item of production, or where the credit worthiness of the counterparty is significant and may dominate the transaction and lead to losses.

f) Fair value of financial instruments

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Company establishes fair value using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, and discounted cash flow analysis. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measure the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in the income statement on initial recognition of the instrument. In other cases, the difference is not recognised in the income statement immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Cash flow hedge reserve

The cash flow hedge reserve represents gains and losses on derivatives classified as effective cash flow hedges. Upon the designation of option instruments as hedging instruments, the intrinsic and time value components are separated, with only the intrinsic component being designated as the hedging instrument and the time value component is deferred in the other comprehensive income.

Share capital, other equity instruments and reserves

Financial instruments issued are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue available number of own equity instruments. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

4 Critical accounting estimates and judgements

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year, as well as the exercise of judgements. These estimates and judgments are based on management's best knowledge of the amount, event or actions and actual results ultimately may differ from those estimates. The critical accounting estimates and judgements that could result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are summarised below.

Critical accounting estimates

Depletion, depreciation and amortisation

Development and production expenditure for the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of the development wells are capitalised as producing oil and gas properties and depreciated using the unit of production method by reference to the ratio of production in the year to the related estimated proven, probable and risked possible reserves, where applicable, future development expenditures necessary to bring those reserves into production. Generally, where property, plant and equipment has been acquired as part of a business combination, the reserves base utilised in unit-of-production calculations is consistent with that used to determine the initial fair value.

During the year ended 31 December 2020, DD&A was calculated using a unit of production method by reference to only proven and probable reserves.

Decommissioning

The Company holds provisions for the future decommissioning of oil and natural gas production facilities and pipelines at the end of their economic lives. The largest decommissioning obligations facing the Company relate to the plugging and abandonment of wells and the removal and disposal of oil and natural gas platforms and pipelines in the UK.

The Company considers the impact of climate change on decommissioning provisions, specifically the timing of future cash flows, and has concluded that it does not currently represent a key source of estimation uncertainty. Changes to legislation, including in relation to climate change, are factored into the provisions when the legislation becomes enacted.

Decommissioning technologies and costs are constantly changing, as are political, environmental, safety and public expectations. The timing and amounts of future cash flows are subject to significant uncertainty and estimation is required in determining the amounts of provisions to be recognised. Any changes in the expected future costs are reflected in both the provision and the asset.

The estimated decommissioning costs and the pre-tax discount rate applied take into account the effects of inflation and the risks and uncertainties concerning amounts to be settled in the future.

Impairment

Goodwill and intangible assets that have an indefinite useful life are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. For development and production assets an impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of an asset may exceed its recoverable amount. The aggregate carrying value is compared against the expected recoverable amount of the CGU, generally by reference to the present value of the future net cash flows calculated on the basis of expected production profiles and estimated proven, probable and risked possible reserves. The recoverable amount is sensitive to changes in reserves. Assets are tested for impairment using expected production profiles along with future commodity price, opex and capex assumptions and an appropriate discount factor, in order to calculate the future cash flows generated from the Company's development and production assets. These cash flows are compared to the net book values carried by the Company to ascertain whether an impairment write down should be applied.

The key judgements relate to the future production and cost profile, oil price, discount rate and inflation rate and when determining the appropriate grouping of assets into a CGU or the appropriate grouping of CGUs for impairment testing purposes. For example, individual oil and gas properties may form separate CGUs whilst certain oil and gas properties with shared infrastructure may be grouped together to form a single CGU. Alternative groupings of assets or CGUs may result in a different outcome from impairment testing.

Judgement was also used to determine the appropriate indicators of impairment, classification of reserves and likelihood of tax loss recoverability.

During the year ended 31 December 2020, the present value of future net cash flows was calculated with reference to expected production from estimated proven and probable reserves only. This would not have resulted in any material difference to the impairment charge recognised during 2020.

Recoverability of deferred tax asset

Assumptions and judgements were used to determine the probability that deferred tax assets recognised in the financial statements will be recovered from taxable income in future years. The calculations involve judgements in two key areas:

1. Utilisation of available taxable losses: significant estimates are required in determining future phasing of the capital and operating programme, oil prices, production profile, and the resulting cash flows.

2. Estimation of the probable value of losses requires judgement regarding whether differences may arise between the value of tax losses submitted in tax computations and ultimately what may be agreed by the taxation authorities in the UK.

The recoverability of this value is sensitive to the assumptions used and any change in those assumptions could impact the recoverability of the asset in the absence of future acquisitions.

Climate Change

The Company recognises that there may be potential financial implications in the future from the risk of climate change. The Company expects changes to policies, legislation and regulation to address climate change which could increase associated costs and administration requirements. These changes may in the future have an impact across various areas of accounting including impairment, fair values, potential increase in costs and contingent liabilities. The Company recognises that there may be potential financial implications in the future from climate change risk, and have included an estimation of future cash flows associated with the purchasing of carbon emissions allowances and certain capital expenditure projects targeted at reducing carbon emissions.

As at the balance sheet date the Company believes there is no material impact on balance sheet carrying values of assets or liabilities. Although this is an estimate, it is not considered a critical estimate as management's view is that at the end of the current reporting period there is no significant risk of climate change resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5 Revenue

An analysis of the Company's revenue is as follows:

	2021	2020
	$'000	$'000
Oil and gas sales	**45,927**	63,369

Effective from 1 January 2021, the Company adopted hedge accounting under IFRS 9; therefore, the effects of realised oil and gas hedging are recognised as part of the revenue during the year.

Oil and gas revenue of $46.2 million (2020: $63.4 million) excludes realised hedging losses on oil and gas sales in the year of $0.3 million.

No significant judgements have been made in determining the timing of satisfaction of performance obligations and the transaction price and the amounts allocated to performance obligations. All revenue is generated in the UK and is recognised at a point in time.

6 Other operating gain

Following the application of hedge accounting effective from 1 January 2021, the Company did not recognise any other operating gain.

In 2020, the immediate parent company, NEO Energy Upstream UK Limited, entered into forward commodity and foreign currency contracts, to mitigate the commodity price and exchange rate risk for production and certain foreign currency receivables/(payables) across the Group. NEO Energy (UKCS) Limited was allocated a share of the realised and unrealised hedge gains and losses and associated contract costs by way of a management charge based on its production for the period and forecasted production for future hedge periods. The push down of gains for the year ended 31 December 2020 was $27.5 million.

7 Operating profit

	2021	2020
	$'000	$'000
Operating profit is stated after charging / (crediting):		
Depletion, depreciation and amortisation costs (Note 12)	**24,550**	17,676
Impairment reversal	**-**	(8,916)
Foreign exchange (gain) / loss	**(68)**	194
Gain on disposal of assets	**(351)**	-
Audit of financial statements	77	51

Gain on disposal relates to Hudson licence withdrawal ($0.4 million).

Depletion, depreciation and amortisation costs include change in decommissioning provision of fully depreciated assets recognised via the income statement of $11.4 million.

8 Employee numbers and directors' remuneration

During the year the Company had no employees (2020: nil).

Some of the directors of the Company are also directors of the holding Companies and fellow subsidiaries. The directors were paid by another Group Company. The directors do not believe that it is practicable to apportion this

NEO Energy (UKCS) Limited

Notes to the financial statements for the year ended 31 December 2021

amount between their services as directors of this Company and their services as directors of the holding Companies in which the remuneration has been disclosed.

9 Finance income

	2021 $'000	2020 $'000
Bank interest	-	218

10 Finance costs

	2021 $'000	2020 $'000
Bank charges and interest	1,108	896
Finance charges	34	31
Hedge cost	1,436	-
Unwinding of discount on decommissioning provisions (Note 15)	1,820	2,220
	4,398	3,147

11 Tax on profit

	2021 $'000	2020 $'000
Deferred tax:		
Origination and reversal of temporary differences	(8,835)	9,126
Prior year adjustments	1	-
Total tax charge	(8,833)	9,126

Factors affecting tax charge for year

The charge for the year can be reconciled to the profit per the income statement as follows:

	2021 $'000	2020 $'000
Profit before taxation	1,804	45,368
Tax on profit on ordinary activities at rate of 40% (2020: 40%)	722	18,147
Effects of:		
Expenses not deductible	(31)	-
Non-deductible or non-taxable items	(1,098)	5
Ring fence expenditure supplement	(8,090)	(8,353)
Prior year adjustments	1	-
Investment allowance	(338)	(586)
Effects of group relief	-	(87)
Tax charge for the year	(8,834)	9,126

The Government made a number of budget announcements on 3 March 2021. These include confirming that the main rate of corporation tax applicable to non-ring fence profits will increase to 25% from 1 April 2023. This new law was substantively enacted on 24 May 2021. The combined ring fence corporation tax and supplementary charge to corporation tax rate applicable to ring fence profits remains at 40% during the period. See the post balance sheet events note, windfall tax section, for further information on the Energy Profits Levy and the future impact on the tax rate applicable to ring fence profits

NEO Energy (UKCS) Limited

Notes to the financial statements for the year ended 31 December 2021

Deferred tax liability	Accelerated tax depreciation	Total
	$'000	$'000
At 1 January 2021	**(79,438)**	**(79,438)**
Credited to the income statement	7,074	7,074
At 31 December 2021	**(72,364)**	**(72,364)**

Deferred tax asset	Tax losses	Decommissioning Provision	Derivatives	Total
	$'000	$'000	$'000	$'000
At 1 January 2021	**99,199**	**24,319**	**-**	**123,518**
Credited to the OCI	-	-	245	245
(Charged) / credited to the income statement	(2,657)	4,415	-	1,758
At 31 December 2021	**96,542**	**28,734**	**245**	**125,521**

	2021	2020
	$'000	$'000
Deferred tax liability		
Accelerated capital allowances	(72,364)	(79,439)
	(72,364)	**(79,439)**
Deferred tax asset		
Decommissioning provision	28,734	24,319
Derivatives	245	-
Tax losses carried forward	96,542	99,199
	125,521	**123,518**
Disclosed on the balance sheet:		
Deferred tax asset	**53,157**	**44,080**

12 Property, plant and equipment

Cost	Production facility asset	Development and production assets	Total
	$'000	$'000	$'000
At 1 January 2021	**119,415**	**626,557**	**745,972**
Disposals	-	(2,751)	(2,751)
Change in decommissioning provision (Note 15)	-	9,609	9,609
At 31 December 2021	**119,415**	**633,415**	**752,830**
Accumulated depletion, depreciation and amortisation			
At 1 January 2021	**(10,090)**	**(537,265)**	**(547,355)**
Charge for the year	(2,472)	(22,078)	(24,550)
At 31 December 2021	**(12,562)**	**(559,343)**	**(571,905)**
Net book value			
At 31 December 2021	**106,853**	**74,072**	**180,925**
At 31 December 2020	109,325	89,292	198,617

In 2020, there was a reversal of impairment adjustment relating to a reduction of the decommissioning cost estimate of the Hudson asset. However, there was no impairment or reversal of historic charges in this financial year.

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Notes to the financial statements for the year ended 31 December 2021

Impairment testing of Oil and Gas Assets

In accordance with IAS 36 Impairment of Assets, oil and gas (development and production) assets have been reviewed for impairment at the year end. In assessing whether oil and gas assets have been impaired, the carrying amount of the CGU at field level for oil and gas assets is compared with their recoverable amounts.

The recoverable amounts of the CGU and fields have been determined on a fair value less costs of disposal basis. Discounted cash flow models comprising asset-by-asset life of field cash flow projections are used for development and producing assets, applying generally accepted market assumptions to determine the recoverable amounts.

Key assumptions used in calculations

The key assumptions required for the calculation of the recoverable amounts are:
- Oil and gas prices
- Oil & gas reserves and production volumes
- Currency exchange rates
- Discount rates, and
- Opex and capex costs

The key assumptions used year end impairment testing are $78 (2020: $64) per barrel of oil in 2022, $73 in 2023, and thereafter inflated by 2% per annum, £1.15 (2020: £0.45) per therm of gas in 2022, £0.75 per therm of gas in 2023, £0.50 per therm of gas in 2023, 8% (2020: 8%) discount rate and 2% (2020: 2%) inflation rate.

Sensitivity to changes in assumptions

The Company's recoverable value of assets is sensitive to actual oil price achieved and production volumes. If either the producing volumes or oil price were to fall by -10% compared with the base assumptions, this would result in $1.2 million impairment on oil and gas asset carrying values (2020: nil). A 1% increase in the discount rate would not result in any impairment to either oil and gas carrying values or goodwill.

13 Trade and other receivables

	2021	2020
	$'000	$'000
Trade receivables	**866**	-
Amounts due from group undertakings	**399,658**	382,117
Underlift	**16,057**	980
VAT receivable	**7**	21
Prepayments and accrued income	**3,260**	9,576
	419,848	392,694

The directors consider that the carrying amount of trade and other receivables approximates to their fair value due to their short term nature.

Trade and other receivables are not overdue as the payment terms established with the customers have not been exceeded.

Amounts due from group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. At 31 December 2021, the Company had intercompany receivable balances due from its immediate parent company, NEO Energy Upstream UK Limited, of $399.7 million (2020: $382.1 million) before applying the credit loss. In line with the requirements of IFRS 9 'Financial Instruments', management calculated an expected credit loss of $0.7 million, which has been recorded against the receivable. This was based on an assessment of the probability of default, exposure at default, loss given default and consideration of macroeconomic conditions.

NEO Energy (UKCS) Limited

Notes to the financial statements for the year ended 31 December 2021

14 Trade and other payables

	2021	2020
	$'000	$'000
Trade payables	**4,466**	22,838
Amounts due to group undertakings	**783**	84
Overlift	**19,802**	-
Accruals	**634**	2,512
	25,685	25,434

Amounts due to group undertakings are unsecured, have no fixed date of repayment and are repayable on demand.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

As at 31 December 2021, the lenders had a floating charge over all the assets of the Group and its principal operating subsidiaries including a charge over the shares in NEO Energy (UKCS) Limited.

15 Provisions

	Decommissioning provision
	$'000
At 1 January 2021	**60,677**
Utilisation of provision	(390)
Movement in provision (Note 12)	9,609
Unwinding of discount on decommissioning provisions (Note 10)	1,820
Total provisions at 31 December 2021	**71,716**
Reclassified to current liability	(2,334)
Long term provisions at 31 December 2021	**69,382**

Decommissioning costs are expected to be incurred between 2022 and 2028. The provision has been based upon existing technology, current legislation requirements and discounted using a rate of 2.5.0% (2020: 3.0%). The estimated decommissioning costs and the pre-tax discount rate applied take into account the effects of inflation and the risks and uncertainties concerning amounts to be settled in the future. The Company has $38.2 million representing the US dollar equivalent of £28.3 million of letters of credit in respect of future abandonment liabilities.

On the basis that all other assumptions in the calculation remain the same, a 1% reduction in the discount rate would result in an increase in the decommissioning liability of $4.3 million. The change would be principally offset by a change to the value of the associated asset unless the asset is fully depreciated, in which case the change in estimate is recognised directly within the income statement.

16 Derivative financial liability due to group undertakings

Effective from the 1 January 2021, the Company entered into a back to back agreement held between the Company and the intermediate parent company, NEO Energy Upstream UK Limited. As a result, an allocation of both gains and losses arising from derivative trades and future liabilities have been allocated to the Company on a basis of actual and forecasted production respectively. For the year ended 31 December 2021 a $0.5 million loss through Other Comprehensive Income and intercompany payable was recorded.

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Notes to the financial statements for the year ended 31 December 2021

17 Called up share capital

	2021	2020
Number	**'000**	'000
Called up, allotted and fully paid		
Ordinary share of £1 each	**342,206**	342,206

	2021	2020
Value	**$'000**	$'000
Called up, allotted and fully paid		
Ordinary share of £1 each	**446,835**	446,835

18 Controlling parties

As at 31 December 2021, the immediate parent company was NEO Energy Upstream UK Ltd.

As at 31 December 2021, NEO Energy Group Limited is the largest and only Group to consolidate these financial statements. The consolidated financial statements for NEO Energy Group Limited can be obtained from Companies House, 4th Floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, EH3 9FF.

As at 31 December 2021, the ultimate parent undertaking and controlling party is HitecVision VI, LP, a Private Equity Fund based in Guernsey. HitecVision VII, LP also holds a non-controlling interest in the Group.

19 Post Balance Sheet Events

On 8 June 2022, by way of a special resolution, the Board approved the cancellation of 342,206,520 of the issued ordinary shares of £1.00 each.

Dividends
On 15 June 2022, the Board approved a dividend payment of $446.8 million.

Asset transfer
On 1 April 2022, in accordance with the intra-group sale and purchase agreement between the Company and NEO Energy (UKCS) Limited, NEO Energy Production UK Ltd transferred its interest in Golden Eagle field to the Company at its net book value together with any associated asset and liabilities. The consideration for the transfer was the net book value of the Business and Interests, part of which was satisfied by a novation of certain of the Company's intra-group debt liabilities owed by it to NEO Energy Upstream UK Limited, the immediate parent.

Windfall tax
On 25 May 2022, the government announced the introduction of the Energy Profits Levy (EPL), effective 26 May 2022. At the balance sheet date, the proposal to introduce the EPL had not been substantively enacted, therefore its effects are not included in these financial statements. It was however subsequently substantively enacted on 14 July 2022.

Had it been substantively enacted by the balance sheet date it would have decreased the deferred tax asset for the period by $15.1 million and increased the tax expense by $15.2 million.