

NEO Energy (UKCS) Limited

Report and Financial Statements

For the year ended 31 December 2020

Registered number: 02669936

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NEO Energy (UKCS) Limited

Report and Financial Statements For the year ended 31 December 2020

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NEO Energy (UKCS) Limited

Directors and Advisers

Directors

Robert Adams
Russell Alton
Paul Harris
Andrew McIntosh

Secretary

Burness Paull LLP
Union Plaza
1 Union Wynd
Aberdeen
AB10 1SL

Andrew McIntosh
The Silver Fin Building (9th floor)
455 Union Street
Aberdeen
AB11 6DB

Registered Office

30 St. Mary Axe
London
EC3A 8BF

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Capitol, 431 Union Street
Aberdeen
AB11 6DA

NEO Energy (UKCS) Limited

Strategic Report

The directors present their Strategic Report and the audited financial statements for the year ended 31 December 2020.

Principal activities

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

The Company results for the year are shown in the Statement of Comprehensive Income on page 12. The profit for the financial year was \$36.2 million (2019: \$50.5 million) which included the recognition of \$9.1 million charge for deferred tax (2019: \$21.9 million).

Revenue was \$63.4 million for the year compared with \$132.8 million in 2019. The 2020 revenue comprised \$55.6 million from the Western Isles asset (2019: \$124.2 million) and \$7.8 million from the Hudson asset (2019: \$8.6 million). Revenue reduced by 52% compared with the previous year due to the combined impact of a 40% reduction in the production volumes produced by Western Isles asset due to field decline and a reduction in the realised oil prices in 2020. The average realised oil price in 2020 being \$41 per barrel compared with \$64 per barrel in 2019.

The cash balance at the end of 2020 was \$0.8 million (2019: \$67.3 million).

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 2021

In May 2021 the Company withdrew from the Hudson asset joint venture operations whilst retaining the associated decommissioning liability.

No other significant change in the business of the Company is expected in the foreseeable future, subject to opportunities that may arise.

Decision making and stakeholder engagement

The Company's success depends on the ability to engage effectively with stakeholders. The Company's Board considers, 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 2020.

At each Board meeting the Directors review, with the Executive Leadership Team, the progress against strategic priorities and the changing shape of the business portfolio. This collaborative approach by the Board, together with the Board's approval of the Company strategy, helps it to promote the long-term success of the Company. Ultimately Board decisions are taken in the best interest of the long-term financial success of the Company and its shareholders, employees of the parent company, the environment, suppliers and customers.

Performance

The Board regularly reviews and monitors the Company's safety, reliability and environmental performance, with the aim of making NEO safer for its workforce and joint operations and minimising its environmental impact. It also focuses on maintaining financial discipline and delivering strong earnings, cash flow and shareholder value.

Safety of the Company's operations is a priority and the Board regularly monitors a range of safety performance metrics. There were no significant environmental or safety HSE incidents in 2020.

NEO Energy (UKCS) Limited

Governance

The Board, led by the Chairman, believes that strong governance is essential to the success of the Company. All Board meeting agendas are structured around four distinct pillars – strategy, performance, people and governance.

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

The Company is committed to upholding the highest standards with respect to environmental, social and governance (ESG) policy. Climate change is one of the world's greatest challenges and it demands thoughtful and urgent action. In line with the UK Oil & Gas Authority's Strategy, NEO focuses on the dual objectives of Maximising Economic Recovery (MER) and Net Zero. The Company's approach centres on increasing the longevity of the assets by conducting highly efficient and cost-effective extractive practices and taking a full lifecycle approach.

In May 2021, NEO released its Low Carbon Transition Plan which outlines 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 collaborating with partners and industry associations to explore alternative power solutions, including full or partial electrification, and technology development.

As part of the Company's wider ESG strategy, NEO is also committed to playing a role in society: employing and investing in people and the communities in which they live. As employers and investors in the UK, NEO wants to be at the heart of future economic prosperity.

Principal risks and uncertainties

The major risks and uncertainties facing the Company are operational and HSE-related risks associated with production and drilling operations; geological and technical uncertainty associated with the presence and performance of reservoirs and the performance of wells; commodity price and foreign exchange rate uncertainty, cyber risk, climate change issues legislation and COVID-19.

The Company has in place an HSE management plan to ensure that all our operations are conducted to high industry standards and procedures. The Company also seek to ensure that all contractors have the appropriate systems and procedures in place to ensure safe operations.

Operational

The Company's operations are subject to inherent hazards and unforeseen interruptions, including equipment failures, drilling and production risks that may affect our ability to produce oil and gas.

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 Company and/or its contractors to ensure that any remedial actions that are identified are fully acted upon and implemented. NEO 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. Certain risks cannot reasonably be insured against.

Corporate risk management

The Company's risk management framework enables potential harmful or adverse consequences associated with all operations or activities to be identified assessed, managed and periodically reviewed. This framework provides a basis for managing all business related risks and highlights any material risks and their associated mitigation measures.

Geological

The level, quality and production volumes from the Company's oil and gas reserves could vary from the 2P reserves quantities reported if assumptions on which the reserves estimates have been based prove incorrect. In order to mitigate

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the inherent geological risks facing the Company 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 Company focuses on mature hydrocarbon bearing provinces and exploring prospects with proven productive analogues in regions with established infrastructure. Once discovered, the Company's estimated recoverable reserves are verified by independent qualified engineering firms.

Commodity price and currency risk

The Company 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 Reserves-Based Lending Facilities. The Company 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 take into account a range of commodity price scenarios.

The Company's immediate parent undertakes hedging activities from time to time using derivative transactions to mitigate its exposure to fluctuations in oil and gas prices and foreign exchange rates on its behalf, in accordance with a Board-approved Hedging Policy and also to adhere to minimum hedging levels required by Reserves-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.

Cyber security

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 Company's activities, financial loss, loss of confidential data and reputational damage.

The Company'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 digital awareness training.

Climate change legislation

Climate change and fossil fuel extraction legislation may have a material impact on the oil and gas industry. 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 our operations.

NEO has also 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 collaborating with partners and industry associations to explore alternative power solutions, including full or partial electrification, and technology development. The Company recognises that there may be potential financial implications in the future from climate change risk, however, as at the balance sheet date the Company believes there is no material impact on balance sheet carrying values of assets or liabilities.

The Company also has in place comprehensive insurance policies to cover damage or losses which may occur during operations and to cover the costs of any major environmental incident, subject to deductibles and limits. Certain risks cannot reasonably be insured against.

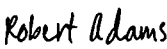
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COVID-19

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

To minimise the risk, personnel on each of the Company's offshore facilities has been reduced and the stewarding/cleaning regimes increased, social distancing measures are in place and Oil & Gas UK (OGUK) guidance is being followed. The inspection, integrity and maintenance work scopes are being carefully managed to ensure execution of critical maintenance work scopes. Measures have also been taken to minimise the risk of infected personnel travelling offshore and in the event of a suspected case arising on one of the installations, the ability to isolate and transport to shore any individuals. Since the start of the COVID-19 pandemic, no related incidents have occurred on NEO operated offshore assets. Access has been allowed into the offices for essential activities which cannot be completed at home, in line with English and Scottish Government requirements. The approach for staff returning to the office during 2021 is currently being developed.

Approved and signed on behalf of the Board.

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Robert Adams
Director
30 July 2021

NEO Energy (UKCS) Limited

Directors' Report

The directors present their report and audited financial statements for the year ended 31 December 2020.

Dividends

No dividends were paid or are proposed for the year (2019: \$nil).

Company funding and going concern

The Company is part of the NEO Energy Group Limited (the "Group") and has net current assets of \$368.0 million as at 31 December 2020 (2019: \$313.2 million), which includes a net intercompany loan of \$382.0 million (2019: \$236.5 million) due from its immediate parent company. 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 October 2022. A severe but plausible downside scenario that included a reduction to future planned production rates and a future commodity price downside scenario of \$60/bbl oil price and £0.42 per therm gas price for the remainder of 2021 and \$47/bbl oil price and £0.27 per therm gas price for 2022 was included in the going concern assessment.

The Company's and the Group's going concern assessment also included incorporating the cash forecasts for the acquisition of the ExxonMobil assets and the completed acquisition of Zennor Petroleum Limited by the Group, the associated refinancing and the executed commodity price hedges in place. The Group will fund the acquisitions through a combination of debt and equity funding. The Group will utilise its current RBL facility by accessing the accordion feature to increase the facility from the current \$500 million commitment up to \$2 billion. The Group has secured a written Commitment and Mandate from a syndicate of banks to underwrite the increase in the facility.

The Directors of the Group have also received confirmation that HitecVision intends to continue to provide financial support to the Group for at least one year following the date of approval of these financial statements, and have no reason to believe that material uncertainty exists that may cast doubt about the Group and 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.

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).

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Directors

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

Andrew McIntosh	
Robert Adams	(Appointed: 30 June 2020)
Paul Harris	(Appointed: 27 January 2020)
Russell Alton	(Appointed: 1 September 2020)
Glenn Corrie	(Resigned: 30 June 2020)
Peter Thomas	(Resigned: 24 April 2020)
John Baillie	(Resigned: 31 March 2020)

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

Independent auditors and disclosure of information to auditors

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

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

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

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual 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.

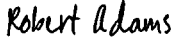
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Directors' confirmations

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:

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Robert Adams
Director
30 July 2021

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 2020 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 2020; the Statement of Comprehensive Income, 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.

NEO Energy (UKCS) Limited

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 2020 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 the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk

NEO Energy (UKCS) Limited

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.

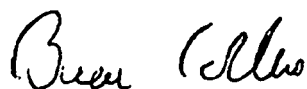
Other required reporting

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 (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
30 July 2021

NEO Energy (UKCS) Limited

Statement of Comprehensive Income Year ended 31 December 2020

	Note	2020 \$'000	2019 \$'000
Revenue	5	63,369	132,799
Cost of sales *		(51,256)	(55,730)
Gross profit		12,113	77,069
Other operating gain	6	27,505	-
Impairment reversal / (expense)	7	8,916	(25)
Administrative expenses		(43)	(1,136)
Foreign exchange (loss)/gain	7	(194)	208
Operating profit	7	48,297	76,116
Finance income	9	218	854
Finance costs	10	(3,147)	(4,549)
Profit before taxation		45,368	72,421
Tax on profit	11	(9,126)	(21,945)
Profit and total comprehensive income for the financial year		36,242	50,476
Attributable to:			
Owners of the parent		36,242	50,476

* Change in classification - Depreciation, depletion and amortisation costs of \$17.7 million (2019: \$34.8 million) have been reclassified from within operating profit to cost of sales to better reflect the costs directly attributable to the asset.

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Statement of Changes in Equity Year ended 31 December 2020

	Share capital	Currency translation reserve	Retained earnings	Total equity
	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2019	446,835	8,286	8,199	463,320
Profit and total comprehensive income for the financial year	-	-	50,476	50,476
Balance at 31 December 2019	446,835	8,286	58,675	513,796
Profit and total comprehensive income for the financial year	-	-	36,242	36,242
Balance at 31 December 2020	446,835	8,286	94,917	550,038

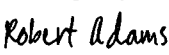
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Statement of Financial Position As at 31 December 2020

	Note	2020 \$'000	2019 \$'000
Non-current assets			
Property, plant and equipment	12	198,617	221,366
Deferred tax asset	11	44,080	53,206
		242,697	274,572
Current assets			
Trade and other receivables	13	392,694	256,095
Cash and cash equivalents		758	67,298
		393,452	323,393
Total assets		636,149	597,965
Current liabilities			
Trade and other payables	14	(25,434)	(10,177)
Net current assets		368,018	313,216
Total assets less current liabilities		610,715	587,788
Non-current liabilities			
Provisions	15	(60,677)	(73,992)
Total liabilities		(86,111)	(84,169)
Net assets		550,038	513,796
Equity			
Called up share capital	16	446,835	446,835
Currency translation reserve		8,286	8,286
Retained earnings		94,917	58,675
Total equity		550,038	513,796

The financial statements were approved by the board of directors on 30 July 2021.

Signed on behalf of the Board of Directors.

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Robert Adams
 Director

Registered no. 02669936

NEO Energy (UKCS) Limited

Notes to the financial statements for the year ended 31 December 2020

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.

2 Basis of preparation

The Company is a qualifying entity for the purposes of FRS 101. These financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared 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 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.

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 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).

Going concern

The Company is part of the NEO Energy Group Limited (the "Group") and has net current assets of \$368.0 million as at 31 December 2020 (2019: \$313.2 million), which includes an intercompany loan of \$382.0 million (2019: \$236.5 million) due from the immediate parent company. 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 October 2022. A severe but plausible downside scenario that included a reduction to future planned production rates and a future commodity price downside scenario of \$60/bbl oil price and £0.42 per therm gas price for the remainder of 2021 and \$47/bbl oil price and £0.27 per therm gas price for 2022 was included in the going concern assessment.

The Company's and the Group's going concern assessment also included incorporating the cash forecasts for the acquisition of the ExxonMobil assets and the completed acquisition of Zennor Petroleum Limited by the Group, the

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associated refinancing and the executed commodity price hedges in place. The Group will fund the acquisitions through a combination of debt and equity funding. The Group will utilise its current RBL facility by accessing the accordion feature to increase the facility from the current \$500 million commitment up to \$2 billion. The Group has secured a written Commitment and Mandate from a syndicate of banks to underwrite the increase in the facility.

The Directors of the Group have also received confirmation that HitecVision intends to continue to provide financial support to the Group for at least one year following the date of approval of these financial statements, and have no reason to believe that material uncertainty exists that may cast doubt about the Group and 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 all the years presented, unless otherwise stated.

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.

An associate is an entity over which the Company has significant influence, through the power to participate in the financial and operating policy decisions of the investee, but which is not a subsidiary or joint arrangement. Interests in associates are accounted for using the equity method.

Business combinations and goodwill

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Company;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Company recognises any non-controlling interest in the acquired entity, on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquired rights to petroleum reserves and resources that can be reliably measured are recognised separately in the assessment of fair values on acquisition. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition date fair value of any previous equity interest in the acquired entity, over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments is measured at fair value, with changes in fair value recognised either in the statement of profit

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Notes to the financial statements for the year ended 31 December 2020

or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured, and subsequent settlement is accounted for within equity.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Goodwill and intangible assets impairment

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, goodwill is tested for impairment at the level that management monitor the goodwill. Intangible assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Revenue recognition

Sales revenue represents the sales value of the Company's oil liftings and gas deliveries in the year. Oil revenue is recognised when title of the crude has passed to the buyer by means of the bill of lading document.

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.

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 period. The resulting imbalance between cumulative entitlement and cumulative liftings is 'underlift' or 'overlift'. Underlift and overlift are valued at the lower of cost and net realisable value and included within current assets and current liabilities respectively. Movements during an accounting period are adjusted through cost of sales such that gross profit is recognised on an entitlement basis.

All revenue is principally attributable to one class of business, from exploration and production of oil and gas.

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 royalties, transportation tariffs and field operating costs. These are recognised as incurred.

Taxation

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

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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. 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 associates, 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

These financial statements are presented in United States Dollars ('the presentational currency') which is also the currency of the primary economic environment in which the Company operates ('the functional 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 financial period.

Intangible assets – exploration and evaluation (E&E)

The Company adopts the successful efforts method of accounting for exploration and evaluation costs.

Pre-licence costs are expensed in the period in which they are incurred. Expenditure directly associated with exploration, evaluation or appraisal activities is initially capitalised as an intangible asset. 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.

All intangible oil and gas 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 assets are declared part of a commercial development, related costs are transferred to property, plant and equipment. All intangible oil and gas assets are assessed for any impairment prior to transfer and any impairment loss is recognised in the income statement.

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Notes to the financial statements for the year ended 31 December 2020

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 intangible 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 period to the related proved and probable reserves (2P), taking into account estimated, where applicable, future development expenditures necessary to bring those reserves into production. 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 primarily relates to the future decommissioning of production facilities, pipelines and the plugging and abandonment of wells.

A decommissioning asset and liability are recognised, within property, plant and equipment and provisions respectively, at the present value of the estimated future decommissioning costs. The decommissioning cost estimate is discounted using a risk free rate. The decommissioning asset is amortised over the life of the underlying asset on a unit of production basis over proven and probable reserves, 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.

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These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning liabilities is likely to depend on the dates when the fields cease to be economically viable. This in turn depends on future oil prices, which are inherently uncertain.

Leases

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, and any initial direct costs. Right-of-use assets are depreciated over the lease term on a straight-line basis. In addition, the right-of-use asset is reviewed for impairment losses and adjusted for certain re-measurements of the lease liability.

Lease liabilities arising from a lease, are initially measured at the present value of the lease payments to be made over the lease term and are discounted using the interest rate implicit in the lease. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Liabilities have been measured at the present value of the remaining lease payments, discounted using a rate of 5%, which is the Company's estimate of the incremental rate relating to office leases.

The application of the standard has impacted both the measurement and disclosures of leases over a low-value threshold, with terms longer than one year and on the classification of expenditures and consequently the classification of cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. It has also impacted the timing of expenses recognised in the income statement.

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.

Related party disclosures

In accordance with the exemption allowed by FRS 101, no disclosures are made of transactions with wholly owned subsidiaries of NEO Energy Group Limited or compensation of key management.

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 is 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 2020 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.

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.

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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.

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 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.

Impairment of trade receivables

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, such as crude oil prices, 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.

Impairment of amounts due from group undertakings

The Company assesses the recoverability of amounts due from group undertakings on an annual basis, as well as the need to raise ECL on these financial assets. The recoverability of amounts due from group undertakings is assessed by management by considering the credit worthiness of debtor companies and the overall group given that all group companies under NEO Energy Group Limited are financed under a common RBL debt facility. Under the three

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scenarios of varying likelihood, management provide their best estimate of probability of loss using the total exposure and probability weightings for each scenario when calculating the final ECL. As part of this process management considers available forward-looking information such as future oil price and production volumes.

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, it 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 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 Group 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 price risk. However, such contracts are not accounted for as designated hedges. 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. Any gains or losses arising from changes in the fair value of derivatives are recognised within other operating gains / losses for the period. When a hedging instrument expires, or is sold or terminated, any gains or losses are recognised within other operating gains / losses for the period.

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.

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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.

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 judgements and key sources of estimation uncertainty

Critical estimates and judgements in applying the Company's accounting policies

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 period, 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.

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 period to the related proved and probable reserves (2P), taking into account estimated, where applicable, future development expenditures necessary to bring those reserves into production. Any changes in the reserves affecting unit-of-production calculations are reflected prospectively.

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.

Most of these decommissioning events are expected to be incurred between 2024 and 2027 and the precise requirements that will have to be met when the removal event occurs are uncertain. 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

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future net cash flows expected to be derived from the production of commercial 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.

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. If assumed future Brent oil prices were to reduce by 10% the deferred tax asset recoverable value would reduce by \$43 million.

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, however, 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:

	2020	2019
	\$'000	\$'000
Oil sales	63,073	131,538
Gas sales	296	1,261
	63,369	132,799

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.

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6 Other operating gain

The immediate parent company, NEO Energy Upstream UK Limited, enters 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 is 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

	2020	2019
	\$'000	\$'000
Operating profit is stated after charging / (crediting):		
Depletion, depreciation and amortisation costs (Note 12)	17,676	34,842
Impairment (reversal) / expense (Note 12)	(8,916)	25
Foreign exchange loss/ (gain)	194	(208)
Audit of financial statements	51	43

Depreciation, depletion and amortisation costs of \$17.7 million (2019: \$34.8 million) have been reclassified from within operating profit to cost of sales to better reflect the costs directly attributable to the asset. This is a change in accounting policy.

8 Employee numbers and directors' remuneration

During the year the Company had no employees (2019: 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 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

	2020	2019
	\$'000	\$'000
Bank interest	218	854

10 Finance costs

	2020	2019
	\$'000	\$'000
Bank charges and interest	896	632
Finance charges	31	41
Fair value loss on derivatives	-	1,996
Accretion cost (Note 15)	2,220	1,880
	3,147	4,549

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Notes to the financial statements for the year ended 31 December 2020

11 Tax on profit

	2020 \$'000	2019 \$'000
Current tax:		
Group relief payment	-	(2,263)
Total current tax	-	(2,263)
Deferred tax:		
Origination and reversal of temporary differences	9,126	18,440
Prior year adjustments	-	5,768
Total tax charge	9,126	21,945

Factors affecting tax charge for year

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

	2020 \$'000	2019 \$'000
Profit before taxation	45,368	72,421
Tax on profit on ordinary activities at rate of 40% (2019: 40%)	18,147	28,968
Effects of:		
Non-deductible or non-taxable items	5	56
Ring fence expenditure supplement	(8,353)	(9,578)
Adjustments in respect of prior year	-	5,768
Investment allowance	(586)	(665)
Effects of group relief	(87)	(2,604)
Tax charge for the year	9,126	21,945

In 2019, \$2.3 million was received from the ITOCHU Group as compensation for tax losses which were group relieved in the previous year in accordance with the acquisition (of the Company) Sales and Purchase Agreement.

Legislation was introduced in Finance Act 2021 to increase the main rate of UK corporation tax for non-ring fence profits from 19% to 25% from 1 April 2023. This is not expected to have a material impact on the Company.

Deferred tax liability	Accelerated tax depreciation \$'000	Total \$'000
At 1 January 2020	(88,535)	(88,535)
Credited to the income statement	9,097	9,097
At 31 December 2020	(79,438)	(79,438)

Deferred tax asset	Decommissioning provision \$'000	Tax losses \$'000	Total \$'000
At 1 January 2020	29,645	112,096	141,741
Charged to the income statement	(5,326)	(12,897)	(18,223)
At 31 December 2020	24,319	99,199	123,518

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Notes to the financial statements for the year ended 31 December 2020

	2020 \$'000	2019 \$'000
Deferred tax liability		
Accelerated capital allowances	(79,438)	(88,535)
	(79,438)	(88,535)
Deferred tax asset		
Tax losses carried forward	99,199	112,096
Decommissioning provision	24,319	29,645
	123,518	141,741
Disclosed on the balance sheet:		
Deferred tax asset	44,080	53,206

12 Property, plant and equipment

Cost	Production facility asset \$'000	Development and production assets \$'000	Total \$'000
At 1 January 2020	119,415	640,546	759,961
Additions	-	1,509	1,509
Change in decommissioning provision (Note 15)	-	(15,498)	(15,498)
At 31 December 2020	119,415	626,557	745,972
Accumulated depletion, depreciation and amortisation			
At 1 January 2020	(7,824)	(530,771)	(538,595)
Charge for the year	(2,266)	(15,410)	(17,676)
Impairment reversal	-	8,916	8,916
At 31 December 2020	(10,090)	(537,265)	(547,355)
Net book value			
At 31 December 2020	109,325	89,292	198,617
At 31 December 2019	111,591	109,775	221,366

Reversal of impairment is an adjustment relating to a reduction of the decommissioning cost estimate of the Hudson asset.

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

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Notes to the financial statements for the year ended 31 December 2020

The key assumptions used for year end impairment testing are \$56 (2019: \$60) per barrel of oil in 2021, \$64 in 2022, and thereafter inflated by 2% per annum, £0.49 per therm of gas in 2020 and 2021, £0.45 per therm in 2022, 8% (2019: 8%) discount rate and 2% (2019: 2%) inflation rate.

Sensitivity to changes in assumptions

The Company's recoverable value of assets is highly 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 no additional impairment on oil and gas asset carrying values (2019: nil).

13 Trade and other receivables

	2020	2019
	\$'000	\$'000
Trade receivables	-	747
Amounts due from group undertakings	382,117	239,435
Underlift	980	8,069
VAT receivable	21	20
Prepayments and accrued income	9,576	7,824
	392,694	256,095

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

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 2020, the Company had intercompany receivable balances due from its immediate parent company, NEO Energy Upstream UK Limited, of \$382.7 million (2019: \$240.0 million) before applying the credit loss. In line with the requirements of IFRS 9 'Financial Instruments', management calculated an expected credit loss of \$0.6 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.

14 Trade and other payables

	2020	2019
	\$'000	\$'000
Trade payables	22,838	5,487
Amounts due to group undertakings	84	2,897
Accruals	2,512	1,793
	25,434	10,177

Amounts due to group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. A share of group bank loan interest is charged as incurred by the parent company based on the asset acquisition funding received by the Company.

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

As at 31 December 2020, 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.

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Notes to the financial statements for the year ended 31 December 2020

15 Provisions

	Decommissioning provision
	\$'000
At 1 January 2020	73,992
Utilisation of provision	(37)
Movement in provision (Note 12)	(15,498)
Accretion costs (Note 10)	2,220
At 31 December 2020	60,677

Decommissioning costs are expected to be incurred between 2024 and 2027. The provision has been based upon existing technology, current legislation requirements and discounted using a rate of 3.0% (2019: 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 \$25.4 million representing the US dollar equivalent of £18.8 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 \$3.5 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 Called up share capital

	2020	2019
<i>Number</i>	'000	'000
Called up, allotted and fully paid		
Ordinary share of £1 each	342,206	342,206
	2020	2019
<i>Value</i>	\$'000	\$'000
Called up, allotted and fully paid		
Ordinary share of £1 each	446,835	446,835

17 Ultimate parent undertaking

As at 31 December 2020, the immediate parent company was NEO Upstream UK Ltd.

As at 31 December 2020, NEO Energy Group Limited is the largest 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 2020, 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.

18 Post balance sheet events

In May 2021, the Company withdrew from the Hudson asset joint venture operations whilst retaining the associated decommissioning liability. There was no other financial impact associated with the withdrawal.