Company Registration No.05030838 (England and Wales)

WALDORF PRODUCTION UK PLC
(FORMERLY WALDORF PRODUCTION UK LIMITED)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

COMPANY INFORMATION

Directors	Erik Brodahl Aaditya Chintalapati Jon Skabo Paul Tanner Derek Neilson
Company number	05030838
Registered Office	One St Peter's Square Manchester United Kingdom M2 3DE
Auditor	Ernst & Young LLP 2 Marischal Square Broad Street Aberdeen AB10 1BL
Banker	Barclays Bank PLC 6th Floor The Silver Fin Building 455 Union Street Aberdeen AB11 6DB
External legal counsel	Addleshaw Goddard LLP 1st Floor North Kingshill View Prime Four Business Park Aberdeen AB15 8PU

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

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Quantities of natural gas are expressed in these Financial Statements in terms of thousand cubic feet ("mcf") or million cubic feet ("mmcf"). Oil, which includes natural gas liquids, is quantified in terms of barrels (bbl") or thousand barrels ("mbbl"). Natural gas and oil are compared in terms of barrels of oil equivalent ("boe"). Daily volumes are expressed as barrels of thousand oil equivalent per day ("kboe/day"). One barrel of oil is the approximate energy equivalent of six mcf of natural gas. This is a physical correlation and does not reflect a value or price relationship between the commodities.

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)
STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present the strategic report for the year ended 31 December 2022.

Principal activity
As an independent oil and gas Company our principal activities are the exploration, development and production of crude oil, natural gas and natural gas liquids in the U.K. North Sea. The Waldorf Production UK Plc (WPUK) business model aims to maximise cash flow and value from late-life producing assets predominantly in the North Sea, via opportunistic acquisitions of attractively priced asset portfolios ("Buy and Build" strategy). The Company is part of the Waldorf Energy Partners Limited Group (**the Group** or **WEPL Group**).and the management team and ultimate shareholders view the U.K. North Sea as attractive for small-cap oil and gas producers such as ourselves, with highly tradable assets, historically stable fiscal regime and well-understood subsurface risk.

Review of the business and WEPL Group

At 31 December 2022, the Company had net liabilities of $362 million (2021: $168 million net assets). For the year ended 31 December 2022, the Company generated pre-tax losses of $385 million (2021: $23 million profit) and have a retained loss of $1,766 million as at 31 December 2022 (2021: $1,578 million).

In February 2022, the Company acquired a 20% interest in the Greater Catcher Area and a 29.5% interest in the Kraken field from Waldorf Real Estate Limited (formerly Capricorn North Sea Limited).

In July 2022, Waldorf Production US, LLC, (**WPUS**) a subsidiary company of Waldorf Energy Holdings Inc., in which the Company holds a 49% shareholding interest, completed the acquisition of participating interests for respectively 10% and 5% in the Praline and Stonefly offshore fields located in the Gulf of Mexico from Houston Energy Deepwater Ventures XII, LLC and HEDV Stonefly, LLC, respectively.
In November 2022, WEPL Group expanded its portfolio when Waldorf Production Limited, a subsidiary of WEPL (**WPL**) acquired interests in the Helvellyn, Tors, Wenlock and Cheviot fields through a corporate acquisition of Alpha Petroleum Resources Limited (and its subsidiary, Alpha Petroleum Resources 2 Limited).

Also in November 2022, WPL acquired a further 20% interest in the Catcher field together with interests in the Scott, Telford, Scolty and Crathes fields through a corporate acquisition of MOL Energy UK Ltd, Molgrowest (I) Limited, Molgrowest (II) Limited, MOL Operations UK Ltd and MOL UK Facilities Ltd (**MOL Group**).

In December 2022, WPUS completed the acquisition of a range of overriding royalty interests in respect of a number of offshore fields located in the US Gulf of Mexico from Sea Smoke, LLC and Sea Smoke II, LLC

Primary Producing Fields
The Company began 2022 with three primary producing fields in the UK North Sea – Alba, Bacchus and Columbus, and in (i) February 2022, acquired working interests in Catcher and Kraken from Waldorf Real Estate Limited; and (ii) in October 2022, acquired a further 20% interest in the Catcher field through a corporate acquisition of the MOL Group. These are discussed above and below.

Alba
The Company has a 25.68% working interest in Alba, a mature oil field, which began first production in 1994. As a mature field, Alba's operations are primarily focused on conducting infill drilling and operational activities. The field has 25 producing wells, supported by six water injection wells, with the production sold through oil tanker liftings. Infill drilling programs are currently planned for the Alba field.

Bacchus
The Company has a 30% working interest in the Bacchus field. The Bacchus field is an oil field that began production in April 2012. The field has one producing well that utilizes subsea tiebacks to offtake its production and gas lift from the Forties Alpha Platform.

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)
STRATEGIC REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

Catcher
The Company holds a 20% working interest in the Greater Catcher Area and WPL has a further 20% working interest (through the acquisition by WPL of the MOL Group mentioned above). The Greater Catcher Area is located in the Central North Sea and comprises the Catcher, Varadero and Burgman fields. Hydrocarbons were discovered in 2010/11 and developed via subsea wells tied back to the Catcher FPSO, with first production in December 2017.

Columbus
The Company holds a 25% interest in the Columbus asset. Columbus is a gas/condensate field in the Central Graben region of the North Sea. The field was developed with a single horizontal well and was brought onstream in November 2021.

Kraken
The Company holds a 29.5% working interest in the Kraken asset. The Kraken field is an oil field located in the Northern North Sea. It was discovered in 1984 and was developed via the Armada Kraken FPSO, achieving first oil in 2017. The field has an integrated production system that supports oil production via 14 production and 12 water injection wells. Existing satellite and infill development opportunities provide further drilling opportunities.

Other Fields
The Company also has interests in two other producing fields – Bittern and Enoch – and a field in the decommissioning phase – Goldeneye.

Results and dividends
For the year ended 31 December 2022:

- Revenues were $540 million (2021: $74 million). Revenues increased significantly in 2022 as a result of the acquisition of non-operated interests in the Catcher and Kraken fields from a fellow Group Company.
- Comprehensive loss was $454 million (2021: $152 million profit).
- While underlying business performance stayed strong during 2022, a number of exceptional items drove the Company into a loss making position. The enactment of the Energy Profits Levy led to a significant tax charge for the year, while impairments to the Company's oil and gas assets and investments were also as a direct result of the levy. The provision for contingent payments due to Nautical Petroleum Limited, a subsidiary of Capricorn Energy plc, based on the future production levels of Catcher and Kraken, also increased as a result of reserve uplifts, in particular due to a successful drilling campaign on Catcher.

For the year ended 31 December 2022 and through to the date of this Strategic Report, dividends of $76 million were declared and paid by the Directors. No dividend was declared in the year to 31 December 2021.

Key Performance Indicators
Operational
The Group seeks to maximise the value of its high quality non-operated portfolio, by assisting the operating partners with functional expertise and challenging them to ensure high operating efficiency at key assets. During 2022, the Company's reserve base increased over 4 times as a result of acquiring working interests in the Catcher and Kraken fields. The wider Group has also substantially increased its reserves position following the corporate acquisition of the MOL Group in November 2022, and on a pro-forma basis, the Reserves Replacement Ratio is 133% year-on-year. In addition, the Group seeks to add to its reserve and production base through the execution of strategic and value accretive acquisitions.

The Group's current production is generated from various fields, however, the majority of its reserves are concentrated in the Kraken field and the majority of its production is produced from the Greater Catcher Area. The Group's financial position is therefore dependent upon these assets and may be adversely affected by events which relate to the geographical area such as storms, shutdowns or other events outwith the control of the Group.

Financial
Management aims to maximise cash flow from operations to maintain financial strength, meeting its debt obligations and creating long-term value for shareholders. The Board gained full operational control of WPUK in late 2019, and the management team continues to focus on streamlining non-op and G&A costs, optimising cash flow under the crude oil marketing contracts and ensuring accurate and timely disclosures to relevant stakeholders.

Principal risks and uncertainties
The Company's operations and ability to execute its business strategy will be subject to risks and uncertainties. These risks include but are not limited to the Company's ability to:

- Access capital markets when needed to help fund development projects and operations
- Obtain and maintain normal payment and other terms with customers, vendors and service providers
- Maintain licenses, leases and other contracts that are critical to our operations
- Attract, motivate and retain key employees
- Retain key vendors or secure alternative supply sources
- Fund and execute our business plan, operations and financial commitments
- Potential future changes relating to the application and enforcement of law and regulations, including tax in the UK and overseas, local government policy and the UK Government's strategy on climate change.
- Fluctuations in interest and exchange rates
- The performance of the fields, including the inherent uncertainty of reservoir assumptions
- The reliance on the conduct of co-venturers and the dependence on the support of offshore infrastructure

Competitive risks
The Company encounter competition from other oil and gas companies in all areas of our operations. Our competitors include major integrated oil and gas companies and numerous independent oil and gas companies. Many of our competitors are large, well-established companies with substantially larger operating staffs and greater capital resources and have been engaged in the oil and gas business for a much longer time than our company.

Petroleum and natural gas producers also compete with other suppliers of energy and fuel to industrial, commercial, and individual customers. Competitive conditions may be substantially affected by various forms of energy legislation and/or regulation considered from time to time by the governments and/or agencies thereof and other factors out of our control including, international political conditions, overall levels of supply and demand for oil and gas, fluctuations in interest rates and currency exchange rates and the markets for synthetic fuels and alternative energy sources.

Legislative risks
Oil and gas exploration, development and production are subject to various types of regulation by governmental authorities. Regulations and laws affecting the oil and gas industry are comprehensive and under constant review for amendment and expansion. These regulations and laws carry substantial penalties for failure to comply. The regulatory burden on the oil and gas industry increases our cost of doing business and therefore could adversely affect its profitability. Recent years have seen increased political focus on offshore oil and gas production and a number of significant changes in the fiscal regimes in the jurisdictions that the Group operates. In the UK, the recent Energy Profits Levy levied an additional tax on oil and gas companies as a result of commodity prices and was further extended by the Energy Profits Levy 2.

Health, Safety and Environmental risks
The Company's operations are subject to a variety of laws and regulations governing the discharge of materials into the environment or otherwise relating to health, safety and environmental protection. HSE laws and regulations may over time become more complex and stringent and HSE regulators have set increasing obligations on parties holding oil and gas licence interests to reduce emissions. Failure to comply with the law and regulations can result in significant liabilities, including the imposition of substantial fines and penalties as well as potential orders suspending or terminating the Company's operating rights. Also, the Company may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances. Obtaining exploration, development or production licences and permits may also become more difficult or be the subject of delay by reason of governmental, regional or local environmental considerations or requirements. The Group maintains industry standard insurance cover in relation to the hazardous nature of the business but limits of liability and uninsurable risks means that there is no guarantee that the proceeds of any such policy would be adequate to cover all liabilities.

Decommissioning risk
The Company has certain obligations in respect of the abandonment and decommissioning of its fields and related infrastructure associated with the Company's producing properties. The Company is required to make provisions in the form of cash or alternative security over certain of the Company's decommissioning liabilities in the North Sea. If actual decommissioning or abandonment costs exceed the Company's estimates or reserves to satisfy such obligations, or if the Company are required to provide a significant amount of collateral in cash or other security for these future costs, the Company's financial condition, results of operations and prospects could be materially adversely affected. The Company cannot guarantee that the actual cost of decommissioning will not exceed the value of any provision and that the Company will be able to post sufficient collateral to secure such costs in the event of an increase in offshore collateral security requirements. The Company's decommissioning liabilities could be increased significantly in the event that former or current partners, with which the Group may become jointly and severally liable, default on their obligations.

Market risk
The potential impact and likelihood of unpredictable fluctuations in oil and gas prices remain high, reflecting the uncertain economic outlook, impacted by global recession, geopolitical tensions and associated sanctions, and the potential acceleration of 'peak oil' demand. The Company recognises that climate change concerns have increased political focus and are likely to reduce demand for hydrocarbons over time. This may be mitigated by correlated constraints on the development of new supply. Further, oil and gas will remain an important part of the energy mix, especially in developing regions.

The Group recognises that considerable exposure to this risk is inherent to its business but is committed to prudent cash flow management in line with the terms of its lending facility and legal obligations.

An extended period of depressed commodity prices could have a material adverse effect on the Company's financial position, results of operations, cash flows and our access to capital and on the quantities of oil and gas reserves that may be economically produced. During the year, the Company executed its planned hedging strategy with a significant proportion of its anticipated production hedged via put options at $55/bbl - $60/bbl.

Financial and Liquidity risks
The Company's development and production operations require substantial capital, and the Company may be unable to generate sufficient cash flow from operations or obtain needed capital or financing on satisfactory terms, which could lead to a loss of assets and a decline in the Company's oil and gas reserves.

The oil and gas industry is capital intensive. The Company makes and expects to continue to make substantial capital expenditures in the Company's business and operations for the development and production of oil and gas reserves. In the past, the Company has utilised cash flow from operations to fund capital requirements. However, the Company's cash flow from operations and any potential access to capital markets is subject to several variables, including –

- The level of natural gas and crude oil the Company is able to produce from existing wells and through infrastructure owned by others and in some cases which is of a reasonable age
- The Company's oil and gas reserves
- Uncertainties related to drilling and production operations
- Fluctuations in interest rates and currency exchange rates
- The prices at which natural gas and crude oil are sold
- The timing and amount of capital expenditures
- The Company's ability to control the development efforts, proper maintenance, cost and timing of our operations
- The Company's ability to acquire, locate and produce new reserves

If the Company's revenues decrease as a result of lower oil and gas prices, operating difficulties, declines in reserves or for any other reason or the Company's capital expenditures increase as a result of operating difficulties, higher drilling costs or for any other reason, the Company may have limited ability to generate sufficient cash flow from operations or obtain the capital necessary to sustain the Company's operations at current levels or to further develop and exploit current properties, or for exploratory activity. In order to fund capital expenditures, the Company may need to seek additional financing, which would require consent of the Company's existing lender.

Climate change

As a hydrocarbon business, the Company fully supports the UK's energy transition agenda and its commitment to net zero by 2050. However, the Company's climate change risk assessment and development of an action plan (with the ultimate ambition to reach net zero) is currently in the early stages and as a result, the Company is currently unable to determine the full future economic impact on the business model and operational plans. As such, the potential impacts are not fully incorporated in these financial statements.

Furthermore, societal expectations and increased political focus are driving government action that may impose further requirements and cost on companies in the future. Therefore, risks associated with climate change could, over time, impact capital expenditure, value of assets, reserves, decommissioning liabilities, and production costs (among others). The current financial statements cannot capture such possible future outcomes as these are not yet known. With regards to the calculation of those items in the financial statements that rely on life of field calculations (such as impairments, decommissioning and deferred tax), given the Company's non-operated portfolio of relatively short lived assets (largely ending production by early 2030s), the Company has limited impact from the timing of the coming energy transition. We will continue to focus on improving the Company's oil/gas mix via future acquisitions, as well as improving the Company's carbon footprint over time.

The Company sees a more immediate impact from energy transition across its operations on two fronts – significantly increased volatility in Carbon prices, and the focus on Environmental, Social and Governance (ESG) reporting and action from capital providers. The Company actively addresses the risks around both.

- The Company actively manages its purchase of carbon credits from the UK ETS system throughout the year to ensure the Company minimises acquisition costs while ensuring the Company is well within legal requirements.
- Elsewhere, the Company works closely with its financial advisors and capital providers to ensure alignment with them on ESG requirements and be able to demonstrate improvement over time.
- The Company has established an HSE and Risk Committee with management and Board participation.

The adoption of a climate change strategy and the implementation of climate-change regulations may impact the Company's significant judgements and key estimates and could result in material changes to financial results and the carrying values of certain assets and liabilities in future reporting periods.

Future developments

The Directors consider that the Company continues to be in a strong position to take advantage of future opportunities which may arise in the development and production of crude oil, natural gas and natural gas liquids. The Company continues to actively engage in material acquisition discussions in order to further strengthen and diversify the Company's portfolio of assets. A material acquisition may require the Company to secure additional financing. The Group's ability to grow and operate efficiently is dependent upon the successful integration of acquired business operations.

Section 172 statement and stakeholder relationships

The Directors consider that in conducting the business of the Company over the course of the year they have complied with Section 172(1) of the Companies Act 2006 (**the Act**) by fulfilling their duty to promote the success of the Company and act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole.

The Group is committed to achieving a high standard of corporate governance and has adopted the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council in December 2018. The Group's Corporate Governance Statement can be found on its website. The principles have been considered carefully and adopted to be applied in the context of the Group's specific circumstances.

Section 172 statement and stakeholders relationships (continued)

Issues, factors and stakeholders
The Board has direct engagement with significant shareholders of the Company and seeks a rounded and balanced understanding of the broader impact of its key decisions through regular engagement with all its ultimate shareholders to understand their views. The Group's core values and principles relating to stakeholder relationships and engagement are set out in the Group's Corporate Governance Statement, which can be found on its website. Through wider engagement with the Company's legal, commercial and tax advisors, brokers, financiers, co-venturers, the industry regulator and through a number of non-executive directors with strong industry and market knowledge on the board of the Company's ultimate parent company, Waldorf Energy Partners Limited, the Board also strives to be kept aware of any significant changes in the market, including the identification of emerging trends and risks, which in turn can be factored into its strategy discussions.

i. Likely consequences of any decisions in the long term
The business model and strategy of the Company is set out within the Strategic Report. Any deviation from or amendment to that strategy is subject to Board and shareholder approval. Long-term decisions of the Group are made with reference to the corporate governance principles of the Group, which are set out in the Group's Corporate Governance Statement and Section 172 statement, which can be found on its website.

At least annually, the Board considers a budget for the delivery of its strategic objectives, based on a three-year forecast model. The management team also reports non-financial and financial key performance indicators to the Board monthly, which are used to assess the outcome of the decisions made.

The Board's commitment to keeping in mind the long-term consequences of its decision underlies its focus on risk, including risks to the long-term success of the business. The Board has regular meetings with the Company's management team, lenders and employees in order to understand and consider their views and interests in discussions and long-term decision making.

ii. The interests of the Company's employees
The Company's non-operated nature of business encourages a lean team, with close coordination between the management team and staff. The Board holds at least annual meetings with all employees as part of the budgeting and annual review process to understand employee concerns and interests.

iii. The need to foster the Company's business relationships with suppliers, customers, and others
The management team is tasked with maintaining appropriate business relationships with suppliers, customers and other counterparties. Given the Company's non-operated business model, it has limited day-to-day interaction with suppliers at our assets. Instead, the key counterparties are the operating partners at the Company's assets. Key customers and suppliers of the Group are considered to be important stakeholders and meaningful engagement with them is maintained by the wider management team in line with the Group's corporate governance principles. The composition of the boards of directors of the Group is also carefully considered and regularly evaluated, in line with the Group's corporate governance principles as set out in the Group's Corporate Governance Statement and Section 172 statement, which can be found on its website. The Company's operations team has held longstanding relationships with their counterparts at all the field partners. Elsewhere, other counterparts including off-takers, offshore contractors, vessel owners and accountants also have well-established relationships with the management team as a result of their combined experience in the sector. Where counterparties are new to the business, standard third party due diligence is carried out in key risk areas.

Section 172 statement and stakeholders relationships (continued)

iv. The impact of the Company's operations on the community and the environment
The Board recognises the importance of supporting local communities where the Group's operations are located. Management have long-standing connections in relevant industry organisations (such as Offshore energies UK) and local forums, with a view to understand stakeholder concerns. Whilst most of the Company's operations and assets are offshore, the Board remains focused on implementing environmental, social and corporate governance (ESG) best practices with respect to host communities where relevant. Relevant regulatory bodies, government authorities and environmental bodies are considered to be important stakeholders and meaningful engagement with them is maintained by the wider management team in line with the Group's corporate governance principles. A link to the Group's Corporate Governance Statement and Section 172 statement can be found on its website.

The Company is committed to preventing bribery, money laundering, slavery, and human trafficking, in line with its regulatory obligations, and appropriate policies are in place to achieve this.

v. The desirability of the Company maintaining reputation for high standards of business conduct
The Board believes that the ability of the Company to conduct its business and deliver on its "Buy and Build" strategy depends in part on the reputation of the Board and Management team. The Company constantly strives to maintain high standards of professional business conduct in its interactions with partners, relevant authorities, and other stakeholders. The directors of the group companies of the Group and wider management team are committed to ensure that the Company conducts its business in line with the core values and corporate governance principles of the Group, which include clear principles relating to director responsibilities and risk. A link to the Group's Corporate Governance Statement and Section 172 statement can be found on its website. The risk of falling short of the high standards expected and thereby risking its business reputation will form part of the Board's annual risk evaluation and mitigation process, with the Company recently rolling out a revised training program which also includes anti-bribery.

vi. The need to act fairly as between members of the Company and its wider Group
Through regular engagement with the Group's ultimate shareholders, the Board is confident that fair consideration is given to their views in the making of key decisions by the Board and management team. Other investors are engaged on an ad-hoc basis by the management team throughout the year, including where prompted by material announcements. Monthly management reports are also circulated amongst all shareholders. The Company has a single class of share in issue with all members of the Company having equal rights.

There is nothing further to report in respect to Section 172.

Streamlined Energy and Carbon Reporting (SECR)
The Company is committed to reducing carbon emissions and is measuring its energy consumptions and associated carbon emissions. To reduce the Company's consumption, the Company has enhanced our organisational capacity in the field and is committed to meeting observed recommendations.

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

STRATEGIC REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

Reporting Boundary

As predominately a non-operator, the Company adopts an equity share approach for accounting and reporting greenhouse gas (GHG) emissions. Under the equity share approach, a company accounts for GHG emissions from operations according to its share of equity in the operation. The equity share reflects economic interest, which is the extent of rights a company has to the risks and rewards flowing from an operation. Where a field owned by the Company is operated under a cost sharing agreement, the Company reports a share of the operated installation GHG emissions proportionate to the cost share and the equity in the particular field.

A leadership team decision was taken in 2022 by the Company to voluntarily report our emissions as described above. This was a change to the basis that was used in previous years.

Energy Efficiency Action Taken in the Reporting Year

The Company continue to engage with our joint venture and value chain partners with the intention of decreasing our mutual direct and indirect emissions, achieving better energy efficiency and playing our part in the Energy Transition. A number of significant improvements have been made and future opportunities continue to be reviewed.
The Company is reporting on the following metrics:

	2022	**2021**
Office Energy Consumption (kWh)	128,281	112,701
Total Scope 1 emissions (tCO2e)	-	-
Scope 2 emissions – Purchased electricity (tCO2e)	24.810	23.930
Total CO2e emissions (tCO2e)	24.810	23.930
Intensity ratio – carbon emissions (tCO2e per $100,000 turnover)	0.046	0.325

The methodology used by the Company is Climate Disclosure Standards Board and UK Government GHG Conversion Factors for Company Reporting

On behalf of the board

DocuSigned by:

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Erik Brodahl
Director

31 May 2023

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)
DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present their annual report and financial statements for the year ended 31 December 2022.

The Company has chosen to set out the statements for relationships with suppliers and financial instrument risks within the Strategic Report instead of the Directors Report.

Change of name and re-registration as a public company
On 12 April 2022, the Waldorf Production UK Limited has been re-registered as a public company under the name of Waldorf Production UK plc.

Principal activities
Waldorf Production UK Plc ("the Company") is a wholly-owned subsidiary of Waldorf Acquisition Co Limited and both are part of the Waldorf Energy Partners Limited group ("the Group" or "WEPL Group").

The principal activities are the exploration, development and production of crude oil, natural gas and natural gas liquids.

Results and dividends
The results for the year are set out on page 25.

An interim dividend of $76 million was declared and paid in October 2022 (2021: $nil). No final dividend has been proposed (2021: $nil).

Directors
The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Erik Brodahl
Aaditya Chintalapati
Jon Skabo
Paul Tanner
Derek Neilson

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

Going concern
The Directors have a reasonable expectation that the company has sufficient resources to continue in operational existence for the foreseeable future and have received confirmation that Waldorf Energy Partners Limited will provide support should it be required. The financial support is committed to a period up to 31 August 2024, in line with the period of management's assessment. As a result, they have continued to adopt the going concern basis of accounting when preparing the annual financial statements.

The Company and its Directors have reviewed the forecast cash flows for the Group. The Group's view of the current situation is as follows:

- The Group's founding philosophy is underpinned by a focus on cash flow generation and risk mitigation. Consequently, management constantly monitors its funding position and liquidity risk throughout the period and engages in active cash management to ensure it has sufficient funds to meet forecasted requirements.

- Following the Group's acquisitions of the UKCS business of MOL Hungarian Oil and Gas Plc in the year, the risk profile of the Group has significantly improved, with reduced reliance on production from any one asset and managed exposure to increases in OPEX and CAPEX spend.

Going concern (continued)
In 2021, the Group issued a $300 million 9.75% Senior Secured Bond (listed on the Nordic ABM) and issued further $150 million 12% Secured Bonds in March 2023 (that will be listed on the Nordic ABM at a future date). As a result of these funds being raised, the Group balance sheet was substantially strengthened and provided greater flexibility for future growth. Coupled with the Group's conservative approach to commodity price hedging, in line with the terms of the bond, the Group retain its focus on maintaining a robust financial position. Over the Going Concern assessment period, the Company will make scheduled bond repayments of $150 million on the 9.75% Nordic Bond and $18.8 million on the 12% bonds. The Bond repayments have been factored into the Going Concern Assessment.

Cash forecasts and sensitivities are regularly produced based on the Group's latest estimates for life of field production and cost profiles and estimated future commodity prices. Sensitivities have been run to evaluate any potential liquidity or covenant events across various plausible downside scenarios, including, underperformance of its assets, reduction in commodity prices and cost increases. These analyses are used to identify risks in a timely manner so management can formulate appropriate risk mitigation strategies.

Severe but plausible downside scenarios and a reverse stress test have been completed to review the effect of a significant production decrease, the effect of cost increases and reduction in commodity prices over the going concern period. The results of these are as follows:

- Under each of the severe but plausible scenarios (production decrease by 10% over all oil and gas fields, oil prices flat throughout the going concern period at $75 and OPEX increase by 10%) the Group would still be in a positive cash flow position to 31 August 2024 and compliant with financial covenants; and

- A reverse stress test scenario combining the 3 key factors to which the forecasts are most sensitive, would still result in positive cash and financial covenant compliance to 31 August 2024, at 20% reduction in production, 20% increase in OPEX and oil & gas prices of $68 through 2023 and $69 through 2024. In this scenario, management have assumed production insurance receipts would be payable to the Group as such a decrease in production would trigger the scenarios covered by such insurance cover.

The Directors consider the possibility of a drop in production over all fields by 20%, an increase in OPEX over all fields and a reduction in Oil & Gas prices to these levels as remote, given current and historic production levels of its key assets (Catcher and Kraken), continued demand for oil & gas and contracts in place with customers.

Although under all plausible downside scenarios and the reverse stress test, the Directors do not anticipate breaching the financial covenants associated with the secured bonds, they have identified that they will breach the financial information covenant associated with the bond issued in March 2023. Consolidated audited financial statements are required for Waldorf Production Limited for the year ended 31 December 2022 and these will not be available within the required period. The breach of this covenant is considered an event of default, however after taking legal of advice the Directors consider it unlikely that the bondholders will accelerate and enforce the security based solely on the delayed delivery of the audited financial statements. However, the Directors acknowledge that there is a risk that accelerated repayment could be required, the timing and quantum of which is uncertain.

This may exhaust the available liquidity of the Group and indicates the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. Notwithstanding this material uncertainty, on the basis of the legal advice received, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the period to 31 August 2024. On this basis, the Directors continue to adopt the going concern basis of preparation. Accordingly, these financial statements do not include the adjustments that would be required if the Company was unable to continue as a going concern.

Subsequent events
On 2 March 2023, Waldorf Energy Finance Plc, a subsidiary of Waldorf Energy Partners Limited, successfully completed the issue of a USD 150 million 3-year senior secured amortising bond issue with a coupon of 12%.

Auditor
Pursuant to Section 489 of the Companies Act 2006, Ernst & Young LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Board meeting.

Statement of disclosure to auditor
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the Company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the Company's auditor is aware of that information.

On behalf of the board

DocuSigned by:
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Erik Brodahl
Director

31 May 2023

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK-adopted International Accounting Standards ("IFRSs"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies Changes in Accounting Estimates and Errors, and then apply them consistently
- make judgement and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- state whether UK adopted international accounting standards have been followed, subject to any material departures declared and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Under appliable law and regulations, the directors are also responsible for preparing a strategic report and directors' report that comply with that law and those regulations.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Opinion

We have audited the financial statements of Waldorf Production UK Plc (the 'company') for the year ended 31 December 2022 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 39, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

We draw attention to note 1.2 in the financial statements on page 29, which indicates that the Company is reliant on financial support provided by its ultimate parent, Waldorf Energy Partner Limited. Under the terms of bonds issued by the Group, the Group is required to provide entity level and consolidated audited financial statements for the year ended 31 December 2022 by 30 April.

Each of the bond agreements provide a remediation period, whereby if the audited financial statements are available by a certain date the breach will be considered remediated and will not be considered an event of default. Management do not expect to be able to fulfil the financial information covenant for the bond issued by Waldorf Energy Finance plc (a subsidiary of Waldorf Energy Partners Limited) in March 2023, and if the bondholders sought early repayment of the $150m drawn in March 2023 this may exhaust the available liquidity of the Group. As stated in note 1.2, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining a letter of support from the ultimate parent company (Waldorf Energy Partners Limited) which states that support will be provided to the Company in meeting its liabilities as they fall due for a period up to 31 August 2024.

To determine whether the parent company (Waldorf Energy Partners Limited) and its subsidiaries (the "Group") have the ability to support the Company to continue as a going concern, the following procedures were performed:

- Obtaining management's going concern assessment of the Group for a period up to 31 August 2024, including the prospective financial information that supports their assessment.
- We inquired of management as to its knowledge of events or conditions during the going concern assessment period and read a variety of external oil and gas market sector sources to challenge and corroborate management's macro assumptions used in their assessment, including the impact of climate change. In doing so, we also considered the consistency of information obtained from other areas of the audit such as the forecasts used for impairment.
- We obtained management's board approved forecast cash flows and covenant calculations covering the period of assessment to 31 August 2024 and evaluated as detailed below:
  - In conjunction with our walkthrough of the Group's financial statement close process, we confirmed our understanding of management's going concern assessment process and the review of the going concern assessment by the board of directors.
  - We ensured that the forecasts were mathematically accurate and considered their reasonableness in light of past historical accuracy of management's forecasting and forecast input from management specialists.
  - We evaluated the assumptions on which the assessment is based including whether the key assumptions underlying the forecasts appear appropriate in the circumstances. The key assumptions are the forecast production, oil and gas prices, operating expenditure and capital expenditure.
  - We verified actual results for the year to date, to assess reasonableness of forecasts for that period to identify any factors to be considered and reflected in forecasts through to 31 August 2024.
  - We evaluated the adequacy of the sensitivities and stress testing applied to forecasts and the underlying key assumptions. We evaluated management's reverse stress testing on the forecasts to understand how severe the downside scenarios would have to be to result in a covenant breach.
  - We evaluated the mitigating factors that are within the control of the Group. This included our review of the Group's non-operating cash outflows and evaluating the Group's ability to control these outflows as mitigating actions if required.
  - We verified actual current cash positions as at 30 April 2023 and credit facilities available to the Group, as well as assumptions applied with respect to utilisation of these facilities.
  - We reviewed the existence, adequacy and terms of the borrowing facilities to management's covenant forecast model, verifying inputs to board approved forecasts and facility agreement terms.
  - We considered all the evidence obtained, whether corroborative or contradictory and whether there were indicators of management bias even if all judgments and assumptions are individually reasonable.
  - We reviewed the Group's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Observations

The Group is forecasting to be profitable and generating positive cashflows during the going concern period to 31 August 2024. Throughout the going concern period the Group forecast to maintain adequate liquidity in their base case and severe but plausible downside scenarios

Under the reverse stress scenario prepared by management, the Group would need to be exposed to a combination of significant downsides impacting production levels, increases in OPEX and reduction in oil & gas prices in order to extinguish available cash. In this scenario, which management consider implausible and remote, management have concluded that the impact can be mitigated by cash and cost saving measures which are within their control during the going concern period.

However, the Group is unable to fulfil its financial information covenant, which indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern for a period to 31 August 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	• Revenue recognition - Management override of controls, specifically in relation to revenue recognition • Impairment and impairment reversal of development and production assets and investments in subsidiaries and associates is not correctly accounted for
Materiality	• Overall materiality of $13m which represents 1% of total assets.

An overview of the scope of our audit

Tailoring the scope
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, the potential impact of climate change and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Climate change
Stakeholders are increasingly interested in how climate change will impact Waldorf Production UK Plc. The Company has determined that the most significant future impacts from climate change on its operations will be from potential governmental and societal responses to climate change risks, significantly increased volatility in Carbon prices and consequential restricted access to capital as a result of failing to respond to these risks. These are explained on page 6 in the principal risks and uncertainties. All of these form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other Information".

As explained in the Strategic Report, the governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of the UK adopted international accounting standards.

Our audit effort in considering climate change was focused on ensuring that the effects of material climate risks disclosed on page 6 have been appropriately reflected in note 1.2 to the financial statements. We also challenged the Directors' considerations of climate change in their assessment of going concern and associated disclosures.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.
Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to those charged with governance
Revenue recognition - Management override of controls, specifically in relation to revenue recognition **(Revenue: \$539.8 million, PY comparative \$73.6 million)** Fraud may crystalize by management overriding controls to post topside adjustments, which may result in the overstatement of revenue.	Our principal audit procedures included: Obtained an understanding of the revenue process to confirm the key controls that mitigate the risk, and assessed their design effectiveness and obtained evidence of their implementation. Assessed the appropriateness of revenue recognition accounting policy and disclosure in the financial statements, to ensure consistency with our understanding of the contractual terms and the requirements of IFRS. Detailed substantive procedures focused on testing a sample of monthly revenue with reference to to supporting documentation and cash receipts. Performed detailed substantive procedures in relation to cut-off, which included inspecting pre and post year end invoices and cash receipts to ensure appropriate recognition and cut off being applied. Compared actual results against detailed expectations of income statement line at the lowest disaggregated level. Assessed the appropriateness of disclosure of management's judgements and estimates in relation to revenue recognition in the financial statements.	We communicated to the Audit Committee that: As a result of our procedures performed, no instances of management override were identified. We also concluded that revenue recognition accounting policies adopted are in line with requirements of IFRS15 and have been applied consistently. In addition, we concluded that disclosures in the financial statements were free from material misstatement.

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Risk	Our response to the risk	Key observations communicated to those charged with governance
Impairment and reversal of impairment of development and production assets and investments in subsidiaries and associates is not correctly accounted for. **(Carrying value of development and production assets: $527.7 million, PY comparative $159.1 million; Right of use assets $290.7m, PY comparative $0 million; Investments in subsidiaries $54.9 million, PY comparative $304.9 million; Investment in associates $38.8 million, PY comparative $0 million)** Per IAS 36, *Impairment of Assets*, an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. Similarly, the entity shall also assess whether any impairment losses recognized for assets other than goodwill may no longer exist or may have decreased. There is a risk that management use an inappropriate methodology or assumptions in their impairment test resulting in an incorrect carrying value of development and production assets.	Our principal audit procedures included: Obtained an understanding of the impairment process to confirm the key controls that mitigate the risk. We assessed their design effectiveness and obtained evidence of their implementation. Assessed whether management sufficiently evaluated criteria for indicators of impairment and impairment reversal. Assessed the methodology used by management to estimate the recoverable amount of each CGU, to ensure that this is consistent with accounting standards : • assessed the competence and objectivity of management's specialists used in setting the assumptions used in the impairment test. • challenged the significant assumptions used by management including changes (or lack of changes) to significant assumptions as compared to prior periods. The significant assumptions are estimation of reserves, future oil prices, cost profiles and the discount rate applied. • considered the consistency in assumptions with other estimates.	We communicated to the audit committee: Based on the audit procedures performed, we concluded that managements impairment assessment was performed in line with IAS36 requirements. We are satisfied that the assumptions adopted are reasonable and that the net book value of the development and production asset, investment in subsidiaries and investment in associates are supportable. In addition, we concluded that the disclosures in the financial statements were free from material misstatement.

Risk	Our response to the risk	Key observations communicated to those charged with governance
	Assessed process management have adopted evaluate new information such as changes in oil prices and factored that information into the estimation process, and whether and how alternative assumptions or outcomes have been evaluated. Our procedures have included benchmarking the assumptions used to independent sources. Engaged our internal specialists to challenge the reasonableness of the discount rate applied. Considered whether the impairment losses recognised were in accordance with IAS 36. Understood the reasons for the changes in the estimates used to determine the asset's recoverable amount in prior periods and verified that there has been a decrease in the estimated service potential of the asset. Evaluated the appropriateness of the disclosures in the financial statements, to ensure compliance with IAS 36 requirements.	

In the prior year, our auditor's report included a key audit matter in relation to revenue recognition, impairment and reversal of impairment of development and production assets and quantum of recognised deferred tax asset. In the current year, we excluded the key audit matter related to quantum of recognised deferred tax assets due to the change in composition of the deferred tax balance as a result of energy profit levy taxes.

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial'statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined planning materiality for the Company to be $15.4m (2021: $8.0m), which is 1% (2021: 1%) of total assets. We believe that total assets provide us with a base for materiality which relates to the balances which the stakeholders are most concerned with for Waldorf Production UK Plc. The increase in materiality in comparison to 2021 is as a result of the increase in asset base.

During the course of our audit, we reassessed planning materiality and due to the impairments of property, plant and equipment, investments in subsidiaries and investments in associates reducing total assets of the company, materiality was reduced to $13m (1% of total assets).

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2021: 50%) of our planning materiality, namely $7.7m (2021: $4.0m). We have set performance materiality at this percentage due to our expectations that the audit differences will be above 25% of planning materiality. We note an increase in the performance materiality due to the overall increase in materiality as a result of the increased total assets of the Company.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with those charged with governance that we would report to them all uncorrected audit differences in excess of $770k (2021: $400k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We note an increase in the reporting threshold due to the overall increase in materiality as a result of the increased total assets of the Company.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 2-12, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements;

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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.

Auditor's responsibilities for the audit of the financial statements

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

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. 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. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are:

    - UK adopted international accounting standards
    - The Companies Act 2006
    - HMRC tax laws and regulations
    - Proceeds of Crime Act 2002 and the Money Laundering Regulations 2007
    - The Bribery Act 2010
    - Data Protection Act

- We understood how Waldorf Production UK Plc is complying with those frameworks by making enquiries of management, and those charged with governance to understand how the Company maintains and communicates its policies and procedures in these areas. We corroborated our enquiries through our review of the Board Minutes.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by enquiring of management, those charged with governance, and other employees within the Company to understand the entity's policies and procedures. We also obtained documentation on the entity-level controls to determine whether it supports the prevention, detection and correction of material misstatements, including those that are due to fraud. We considered the risk of management override and determined that revenue recognition may present a fraud risk.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved enquiry with management and those charged with governance, reading correspondence with management's specialists, reading management reports, considering any unusual or non-recurring transactions and considering whether any events or conditions during the audit might have indicated non-compliance with laws and regulations, with support from our own specialists where required.

    Our procedures on journal entries testing included a focus on journals meeting our defined risk criteria, including those posted by those charged with governance, based on our understanding of the business and enquiry with management. Where instances of higher risk journals were identified, we performed additional audit procedures to address each identified risk. These procedures included testing transactions back to source information. We incorporated unpredictability into our testing of manual journals and into our testing of revenue recognition.

    Our procedures on judgements and estimates made in the financial statements included challenging the assumptions made and models used in determining estimates and sought to obtain both contradictory and corroborative evidence to challenge and/or support estimate inputs.

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

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Use of our report

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

DocuSigned by:
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Paul Copland (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Aberdeen

31 May 2023

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 $'000	2021 $'000
Revenue	4	539,756	73,644
Cost of sales		(132,475)	(66,791)
Depreciation, depletion and amortisation	5	(226,088)	(14,777)
Gross profit/(loss)		181,193	(7,924)
Property, plant & equipment (impairments)/impairment reversal	12	(74,333)	75,485
Write off of oil and gas intangible assets	10	-	(17,333)
Administrative expenses		(53,394)	(16,393)
Impairment of investments	14,15	(256,755)	-
Change in fair value of contingent consideration	21	(91,185)	-
Operating (loss)/profit	5	(294,474)	33,835
Finance income	8	7,350	1,066
Finance costs	9	(95,261)	(10,581)
Net foreign currency exchange loss		(3,703)	(2,226)
Revisions to decommissioning obligations for non-producing fields		1,065	1,394
(Loss)/profit before tax		(385,023)	23,488
Tax (expenditure)/credit	11	(69,238)	128,935
(Loss)/profit for the year		(454,261)	152,423

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

A statement of other comprehensive income has not been presented as no items of comprehensive income other than the loss for the financial year were incurred during the financial year. As such, total comprehensive loss for the year amounted to $454m (2021: profit of $152m).

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	Notes	2022 $'000	2021 $'000
Non-current assets			
Property, plant and equipment	12	533,766	159,183
Right of use assets	12	284,644	-
Investment in subsidiaries	14	54,946	304,853
Investment in associates	15	38,759	-
Intercompany receivables	34	56,772	-
Deferred tax asset	11	-	153,007
		968,887	617,043
Current assets			
Inventories	16	10,566	4,481
Other current assets	19	1,063	2,283
Intercompany receivables	34	58,075	125,237
Trade and other receivables	17	74,436	27,579
Restricted cash	33	101,760	106,399
Cash and cash equivalents	20	85,320	53,330
Derivative financial instruments	26	2,762	20,942
		333,982	340,251
Total assets		1,302,869	957,294
Current liabilities			
Trade and other payables	21	260,926	146,468
Current tax liabilities	23	33,934	-
Intercompany payables	34	435,588	38,427
Borrowings	22	100,000	100,000
Lease liabilities	24	54,485	-
Provisions	25	1,173	339
Derivative financial instruments	26	15,657	14,680
		901,763	299,914
Net current (liabilities)/assets		(567,781)	40,337

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

STATEMENT OF FINANCIAL POSITION (continued)

AS AT 31 DECEMBER 2022

	Notes	2022 $'000	2021 $'000
Non-current liabilities			
Trade and other payables	21	100,975	146,502
Borrowings	22	72,196	168,369
Long term provisions	25	294,859	167,885
Derivative financial instruments	26	-	6,540
Deferred tax liability	11	57,385	-
Lease liabilities	24	237,802	-
		763,217	489,296
Total liabilities		1,664,980	789,210
Net (liabilities)/assets		(362,111)	168,084
Equity			
Share capital	28	66	-
Share premium account	29	-	342,846
Other reserves	30	1,403,652	1,403,652
Retained earnings	31	(1,765,829)	(1,578,414)
Total equity		(362,111)	168,084

The notes on pages 29 to 60 form part of these financial statements.

The financial statements were approved by the board of directors and authorised for an issue on 31 May 2023 and are signed on its behalf by:

DocuSigned by:

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Erik Brodahl
Director

Company Registration No. 05030838

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Share Capital $'000	**Share Premium Account $'000**	**Other Reserves $'000**	**Retained earnings $'000**	**Total $'000**
Balance at 1 January 2021	-	342,846	1,403,652	(1,730,837)	15,661
Total comprehensive income for the year	-	-	-	152,423	152,423
Balance at 31 December 2021	-	342,846	1,403,652	(1,578,414)	168,084
Total comprehensive loss for the year	-	-	-	(454,261)	(454,261)
Dividends declared (note 31)	-	-	-	(76,000)	(76,000)
Share premium cancellation (note 29)	-	(342,846)	-	342,846	-
Share capital issue (note 28)	66	-	-	-	66
Balance at 31 December 2022	66	-	1,403,652	(1,765,829)	(362,111)

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 $'000	2022 $'000	2021 $'000	2021 $'000
Cash flow from operating activities					
Cash generated from/(absorbed by) operations	37		356,791		(59,830)
Investing activities					
Purchase of property, plant & equipment		(30,837)		(20,336)	
Purchase of intangible assets		-		(14,160)	
Additional capital contribution made to investment in associate		(43,684)		(52,559)	
Net cash used in investing activities			(74,522)		(87,055)
Financing activities					
Proceeds from issue of bonds		-		270,000	
Deferred financing costs paid		-		(8,011)	
Refund from restricted cash		-		5,867	
Repayment of bonds		(100,000)		(25,000)	
Payment of interest		(23,156)		(7,312)	
Dividend paid		(76,000)		-	
Barclays credit facility		27,787			
Restricted cash funding		(1,799)		(39,500)	
Payment of lease liabilities		(77,111)		(23)	
Net cash (used in)/generated from financing activities			(250,279)		196,021
Net increase in cash and cash equivalents			31,990		49,136
Cash and cash equivalents at beginning of year			53,330		4,194
Cash and cash equivalents at end of year			85,320		53,330

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies

Company information

Waldorf Production UK Plc (Company Number: 05030838) ("the Company"), is a public company limited by shares incorporated in England and Wales. The Company's principal place of business and domicile is the United Kingdom. The registered office is One St Peter's Square, Manchester, United Kingdom, M2 3DE.

The principal activities of the Company are the exploration, development and production of crude oil, natural gas and natural gas liquids in the U.K. North Sea.

The Company has taken advantage of the exemption under the Companies Act 2006 s400 not to consolidate its subsidiaries. Information on the Company's parent and other related party relationships is presented in Notes 34 & 35.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year.

1.1. Accounting convention

The financial statements have been prepared in accordance with UK-adopted International Accounting Standards as they apply to all financial statements of the Company for the year ended 31 December 2022 and applied in accordance with the practices of the Companies Act 2006.

The financial statements are prepared in US dollars, which is the functional currency of the Company. The amounts in these financial statements are rounded to the nearest $'000.

The financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. One exception to the historical cost accounting method being applied is in the accounting for derivatives and contingent consideration, which are held at fair value through profit and loss.

1.2. Going concern

The Directors have a reasonable expectation that the company has sufficient resources to continue in operational existence for the foreseeable future and have received confirmation that Waldorf Energy Partners Limited will provide support should it be required. The financial support is committed to a period up to 31 August 2024, in line with the period of management's assessment. As a result, they have continued to adopt the going concern basis of accounting when preparing the annual financial statements.

The Company and its Directors have reviewed the forecast cash flows for the Group. The Group's view of the current situation is as follows:

- The Group's founding philosophy is underpinned by a focus on cash flow generation and risk mitigation. Consequently, management constantly monitors its funding position and liquidity risk throughout the period and engages in active cash management to ensure it has sufficient funds to meet forecasted requirements.

- Following the Group's acquisitions of the UKCS business of MOL Hungarian Oil and Gas Plc in the year; the risk profile of the Group has significantly improved, with reduced reliance on production from any one asset and managed exposure to increases in OPEX and CAPEX spend.

1. Accounting policies (continued)

1.2 Going concern (continued)

In 2021, the Group issued a $300 million 9.75% Senior Secured Bond (listed on the Nordic ABM) and issued further $150 million 12% Secured Bonds in March 2023 (that will be listed on the Nordic ABM at a future date). As a result of these funds being raised, the Group balance sheet was substantially strengthened and provided greater flexibility for future growth. Coupled with the Group's conservative approach to commodity price hedging, in line with the terms of the bond, the Group retain its focus on maintaining a robust financial position. Over the Going Concern assessment period, the Company will make scheduled bond repayments of $150 million on the 9.75% Nordic Bond and $18.8 million on the 12% bonds. The Bond repayments have been factored into the Going Concern Assessment.

Cash forecasts and sensitivities are regularly produced based on the Group's latest estimates for life of field production and cost profiles and estimated future commodity prices. Sensitivities have been run to evaluate any potential liquidity or covenant events across various plausible downside scenarios, including, underperformance of its assets, reduction in commodity prices and cost increases. These analyses are used to identify risks in a timely manner so management can formulate appropriate risk mitigation strategies.

Severe but plausible downside scenarios and a reverse stress test have been completed to review the effect of a significant production decrease, the effect of cost increases and reduction in commodity prices over the going concern period. The results of these are as follows:

- Under each of the severe but plausible scenarios (production decrease by 10% over all oil and gas fields, oil prices flat throughout the going concern period at $75 and OPEX increase by 10%) the Group would still be in a positive cash flow position to 31 August 2024 and compliant with financial covenants; and

- A reverse stress test scenario combining the 3 key factors to which the forecasts are most sensitive, would still result in positive cash and financial covenant compliance to 31 August 2024, at 20% reduction in production, 20% increase in OPEX and oil & gas prices of $68 through 2023 and $69 through 2024. In this scenario, management have assumed production insurance receipts would be payable to the Group as such a decrease in production would trigger the scenarios covered by such insurance cover.

The Directors consider the possibility of a drop in production over all fields by 20%, an increase in OPEX over all fields and a reduction in Oil & Gas prices to these levels as remote, given current and historic production levels of its key assets (Catcher and Kraken), continued demand for oil & gas and contracts in place with customers.

Although under all plausible downside scenarios and the reverse stress test, the Directors do not anticipate breaching the financial covenants associated with the secured bonds, they have identified that they will breach the financial information covenant associated with the bond issued in March 2023. Consolidated audited financial statements are required for Waldorf Production Limited for the year ended 31 December 2022 and these will not be available within the required period. The breach of this covenant is considered an event of default, however after taking legal of advice the Directors consider it unlikely that the bondholders will accelerate and enforce the security based solely on the delayed delivery of the audited financial statements. However, the Directors acknowledge that there is a risk that accelerated repayment could be required, the timing and quantum of which is uncertain.

This may exhaust the available liquidity of the Group and indicates the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. Notwithstanding this material uncertainty, on the basis of the legal advice received, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the period to 31 August 2024. On this basis, the Directors continue to adopt the going concern basis of preparation. Accordingly, these financial statements do not include the adjustments that would be required if the Company was unable to continue as a going concern.

1. Accounting policies (continued)

1.3. Revenue

Revenue is derived from the sale of oil, gas and natural gas liquids (NGLs) from UK North Sea. Revenue from the sale of crude oil and NGLs and natural gas products is recognized when performance obligations in the sales contract are satisfied and it is probable that the Company will collect the consideration to which it is entitled. Performance obligation for recognising the sale of crude oil is at the time the customer takes physical possession of the oil through lifting or on delivery of the oil into an infrastructure. Performance obligation for recognising the sale of gas and NGL is when it has been delivered. The Company assesses customer creditworthiness, both before entering into contracts and throughout the revenue recognition process. The directors consider all activities of the Company to fall within the offshore sector within one distinct region, therefore no segmental analysis has been prepared.

Revenue is accrued where performance obligations have been met but where certain conditions are required to be satisfied prior to invoicing to the customer and receiving consideration.

Deferred revenue

For certain of the Company's UK fields, oil production is sold on a monthly basis and the invoices are based on agreed quantities with the customer, however, the production remains in the field's storage tanks. The inventory associated with these sales remains on the Statement of Financial Position and the revenue is deferred until the production is shipped out of the storage tanks and the title to the production transfers to the purchaser. The Company records deferred revenue as a contract liability when consideration is received and when production sold exceeds production shipped out of the field's storage tanks.

1.4. Oil and Gas Assets

Oil and gas exploration costs are accounted for under a successful efforts based method: exploration costs are recognised in the statement of comprehensive income when incurred, except that exploratory drilling costs are included within intangible assets pending determination of proved reserves. 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 statement of comprehensive income. The application of the accounting policy for oil and gas assets requires judgement to determine whether future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in the Statement of Comprehensive Income in the period when the new information becomes available.

Exploration costs capitalised in respect of exploration wells that are more than 12 months old are written off unless:

- proved reserves are booked; or
- they have found commercially producible quantities of reserves and they are subject to further exploration or appraisal activity in that either drilling of additional exploratory wells is underway or firmly planned for the near future or other activities are being undertaken to sufficiently progress the assessing of reserves and the economic and operating viability of the project.

Oil and gas assets include rights in respect of properties with proved reserves (proved properties) and with no proved reserves (unproved properties). Property, plant and equipment, including expenditure on major inspections, and intangible assets are initially recognised in the Statement of Financial Position at cost where it is probable that they will generate future economic benefits. This includes capitalisation of decommissioning and restoration costs associated with provisions for asset retirement.

Property, plant and equipment and intangible assets are subsequently carried at cost less accumulated depreciation, depletion and amortisation (including any impairment). Gains and losses on disposals are determined by comparing the proceeds with the carrying amounts of assets sold and are recognised in the Statement of Comprehensive Income, within other income or expenses.

1. Accounting policies (continued)

1.5. Licence and Property Acquisition Costs

Exploration licence costs are capitalised in intangible assets. Licence and property acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that work is under way to determine that the discovery is economically viable. If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence and property acquisition costs are written off through the statement of profit or loss and other comprehensive income. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

1.6. Development Costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells is capitalised within property, plant and equipment.

1.7. Depreciation, Depletion and Amortisation

Property, plant and equipment are depreciated using the Unit of Production ("UOP") method over total proven and probable reserves. This results in a depreciation charge proportional to the depletion of the anticipated remaining production from the field. The life of each field is assessed at least annually. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure.

1.8. Major Maintenance, Inspection and Repairs

Expenditure on major maintenance projects, inspections or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where a maintenance project is expected to provide future economic benefits, the expenditure is capitalised. All other day-to-day repairs and maintenance costs are expensed as incurred.

1.9. Other Tangible Fixed Assets

Other tangible assets with finite lives are using the straight-line method over their estimated useful economic lives of two to five years and assessed for impairment whenever there is an indication that the tangible asset may be impaired. Changes in the expected useful life are treated as changes in accounting estimates.

1.10. Non-current investments

Interests in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses.

The investment in subsidiary is assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in the statement of comprehensive income. The valuation of the investment takes into consideration the fact that the initial carrying value includes fair value of the contingent consideration, which is based upon performance of Catcher and Kraken at the year end, and the movement of the forward oil prices.

The investment in associate is initially recognised at cost and is subsequently accounted for using the equity method of accounting.

1.11. Impairment of tangible and intangible assets

The Company assesses at each reporting date whether there is an indication that an asset (or CGU) may be impaired. If any indication exists, the Company estimates the field's recoverable amount, being the higher of value in use ("VIU") and fair value less costs to dispose ("FVLCD"). Where the carrying amount of a field exceeds its recoverable amount, the field is considered impaired and is written down to its recoverable amount. The Company also assess whether any previously impaired assets have recovered in value, assessing the carrying value against the adjusted recoverable amount taking into account movement since the point of impairment.

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

1.11. Impairment of tangible and intangible assets (continued)

In calculating VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the field. VIU does not reflect future cash flows associated with improving or enhancing an asset's performance.

The assessments of recoverable amounts require the use of estimates and assumptions regarding the expected future cash flow from proven and probable property, plant and equipment, which are dependent upon various factors, such as long-term commodity prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, exploration potential, reserves and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

1.12. Inventories

Materials and supplies are valued at the lower of cost or net realisable value. Inventories comprise all assets that are held for sale in the ordinary course of business, materials and supplies that will be consumed in during a production process. Suppliers refer to materials that do not directly enter into the production process. Furthermore, supplies include spare parts not yet placed in operation, if they do not meet the requirements to be classified as property, plant and equipment.

1.13. Over/underlift

Differences between the production sold and the Group's of production result in an overlift or an underlift. Overlift and underlift are valued at net realisable value using an observable year-end oil and NGL market price. The amount is presented within trade and other receivables or trade and other payables

1.14. Fair value measurement

The carrying amounts reflected in the statement of financial position for cash and equivalents, short-term receivables and short-term payables approximate their fair value due to the short maturity of the instruments. The Company measures the fair value of financial assets and liabilities on a recurring basis, defining fair value as 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. The fair value is based on assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and the risks inherent in valuation techniques and the inputs to valuations. This includes not only the credit standing of counterparties involved and the impact of credit enhancements but also the impact of non-performance risk on the Company's liabilities. Fair value measurements are classified and disclosed in one of the following categories:

Level 1: Fair value is based on actively-quoted market prices.

Level 2: In the absence of actively-quoted market prices, the Company seeks price information from external sources, including broker quotes and industry publications. Substantially all of these inputs are observable in the marketplace during the entire term of the instrument, can be derived from observable data, or supported by observable levels at which transactions are executed in the marketplace.

Level 3: If valuations require inputs that are both significant to the fair value measurement and less observable from objective sources, the Company shall estimate prices based on available historical and near-term future price information and certain statistical methods that reflect the Company's market assumptions.

1.15. Cash and cash equivalents

Cash in the statement of financial position comprise cash at banks and on hand, which are subject to an insignificant risk of changes in value. Cash excludes restricted cash, which is not available for use and therefore is not considered highly liquid - for example, cash set aside to cover decommissioning obligations.

1. Accounting policies (continued)

1.16. Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Initial recognition and measurement

Financial assets are initially recognised at fair value and subsequently valued based on their classification which is determined, at initial recognition, when the Company becomes a party to the contractual provisions of the instrument.

Subsequent measurement

The measurement of financial assets depends on their classification, as described below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of comprehensive income. This category includes derivative instruments.

Financial assets held at amortised cost

Financial assets at amortised cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses are recognised in the statement of comprehensive income when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost includes trade and other receivables, amounts due from related parties, restricted cash and cash and cash equivalents.

1. Accounting policies (continued)

1.16. Financial assets (continued)

Expected credit losses
The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

1.17. Financial liabilities
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables, borrowings, intercompany payables, lease liabilities and derivative financial liabilities.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term, which includes derivative financial instruments that are not designated as hedging instruments in hedge relationships. Gains or losses on liabilities held for trading are recognised in the Statement of Comprehensive Income.

1. Accounting policies (continued)

1.17. Financial liabilities (continued)

Amortised costs
After initial recognition, interest-bearing loans and borrowings, including bonds, are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are derecognised, as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the Statement of Comprehensive Income.

Derecognition of financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Statement of Comprehensive Income.

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

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

Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses.

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. In addition, future changes in tax laws in the jurisdictions in which the Company operate could limit the Company's ability to obtain tax deductions in future periods.

Petroleum Revenue Tax
The charge for petroleum revenue tax ("PRT") forms part of the taxation charge in the Statement of Comprehensive Income. It is calculated on a period-by-period basis with reference to the operating income of chargeable fields, PRT allowances utilised and temporary differences arising in the period. The Company's PRT expense is related to its interest in the Alba field.

1. Accounting policies (continued)

1.19. Decommissioning

Provision for future decommissioning costs is made where the Company has a present legal or constructive obligation, which generally arises when a well is drilled or equipment installed. The provision for future decommissioning is calculated, based on future cash flows discounted at a pre-tax discount rate to reflect risks specific to the costs. An amount equivalent to the initial provision for decommissioning costs is capitalised and amortised over the life of the underlying asset on a unit of production basis over proven and probable reserves. 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. Should the oil and gas asset have no remaining net book value, any increase in the provision is recognised immediately in the Statement of Comprehensive Income.

Unwinding of the discount of future decommissioning provisions is included in finance costs on the Statement of Comprehensive Income.

The Company assesses the decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expenditure may also change.

Estimating decommissioning provisions requires us to make estimates and judgments regarding timing, amount and existence of a liability, as well as what constitutes adequate restoration. The Company uses the present value of estimated cash flows related to decommissioning to determine the provision at reporting date. The Company's liability is determined using significant assumptions, including current estimates of plugging and abandonment costs, inflation factors, the productive lives of wells and the risk-adjusted interest rate. In addition, there are other external factors which could significantly affect the ultimate settlement costs for these obligations including changes in environmental regulations and other statutory requirements, fluctuations in industry costs and advances in technology. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

1.20. Carbon credits

The Company recognises provision for carbon credits when actual emission exceeds the emission rights granted and still held. When actual emission exceeds the amount of emission rights granted, provision is recognised for the exceeding emission rights based on carrying amount of purchased quotas held for compliance.

1.21. Retirement benefits

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the statement of comprehensive income represents the contributions payable to the scheme in respect of the accounting year.

1.22. Dividends

The Company's current policy is to pay interim dividends as deemed appropriate by the Board of Directors on its ordinary shares. Its policy is to announce dividends for ordinary shares in US dollars.

Future dividends will be dependent on future earnings, the financial condition of the wider Group and the risk factors set out in the strategic report.

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the board of directors and paid. In the case of final dividends, this is when approved by the shareholders.

1. Accounting policies (continued)

1.23. Leases

At inception, the Company assesses whether a contract is, or contains, a lease within the scope of IFRS 16. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Where a tangible asset is acquired through a lease, the Company recognises a right-of-use asset and a lease liability at the lease commencement date. Right-of-use assets are held within property, plant and equipment on the statement of financial position, apart from those that meet the definition of investment property.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date plus any initial direct costs and an estimate of the cost of obligations to dismantle, remove, refurbish or restore the underlying asset and the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method or unit of production method,. depending on the underlying asset, from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of other property, plant and equipment. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are unpaid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise fixed payments and the cost of any options that the Company is reasonably certain to exercise, such as the exercise price under a purchase option, lease payments in an optional renewal period, or penalties for early termination of a lease.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in the company's assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the statement of comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less, or for leases of low-value assets including IT equipment. The payments associated with these leases are recognised in the statement of comprehensive income on a straight-line basis over the lease term.

1.24. Contingent consideration

A contingent consideration is made where the Company has a potential obligation arising when a business combination is completed. The contingent consideration is initially measured at fair value at date of acquisition.

The Company subsequently measures the contingent consideration at fair value at each reporting date, with gains and losses from the changes recognised as 'changes in fair value of contingent consideration' in the statement of comprehensive income. The contingent consideration is uncertain and the estimate will vary based on the forward price curve and expected production.

1.25. Barclays discounting

The Company entered into a discounting arrangement with Barclays to manage the Company's working capital by accelerating the receipt of cash from future billing with a customer. Once the provisional amounts are agreed with the customer, Barclays pays them 85% of the expected billing less 0.55% per annum financing fees plus Secured Overnight Financing Rate (SOFR). Upon receipt of the cash from Barclays, the Company recognises a liability for 85% of expected billing, and financing fees recorded in the finance costs.

1. Accounting policies (continued)

1.26. Foreign exchange

The financial statements are presented in US dollars, which is also the functional currency of the Company. Transactions in other currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in other currencies are translated using the contracted rate or retranslated at the rate of exchange ruling at each balance sheet date with the gains or losses on translation included in the statement of comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction.

1.27. Interests in joint operations

The Company's activities are conducted through joint operations, whereby the parties that have joint control of the arrangement have the rights to the assets, and obligations for the liabilities relating to the arrangement. The Company recognises its share of assets, liabilities, income and expenses of the joint operation in the financial statements on a line-by-line basis.

1.28. Commodity pricing derivatives

Initial measurement and recognition

The Company uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

1.29. Acquisition of interests in joint operations (under common control)

Business combinations and the acquisition of interests in joint operations under common control are not included within the scope of IFRS 3 and therefore the Company has applied what it sees as the most appropriate method of accounting for these transactions. The Company uses the pooling of interest method which involves the following:

- Reflects the value of the assets and liabilities of the acquired interests at their carrying amounts on the date of acquisition;
- No adjustments are made to reflect fair values, or recognise any new assets or liabilities at the date of the combination that would otherwise be done under the acquisition method under IFRS 3;
- No goodwill is recognised as a result of the combination;
- Deferred tax arising is recognises in the statement of comprehensive income;
- Any difference between the consideration received and the acquired net assets is reflected within equity; and
- No restatement of periods prior to the acquisition. The acquiring entity accounts for the combination prospectively from the date on which it occurred.

2. Adoption of new and revised standards and changes in accounting policies

In the current year, a number of new and revised Standards and Interpretations have been adopted by the Company. None of these new and revised Standards and Interpretations had an effect on the current period or a prior period.

Standards which are in issue but not yet effective

At the date of authorisation of these financial statements, a number of Standards and Interpretations, which have not yet been applied in these financial statements, were in issue but not yet effective. The Company plans to adopt these as they become effective. The Directors do not expect that the adoption of these Standards will have a material impact on the financial statements of the Company aside from additional disclosures.

3. Critical accounting estimates and judgements

In the application of the Company's accounting policies, which are described in note 1, the directors are required to use estimates, judgments and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported herein. While management regularly reviews its estimates, actual results could differ from those estimates. Changes in estimates are accounted for prospectively.

In particular, the Company has identified the following areas where significant judgements, estimates and assumptions are required:

- estimates of oil and gas reserves;
- estimates as to the expected future cash flows from proven and probable property, plant and equipment;
- estimates of future decommissioning costs;
- estimates of fair values; and
- estimates of the recovery of deferred tax assets.

Further information on each of these areas and how they impact the various accounting policies are described also in the relevant notes to the financial statements.

Critical judgements
Deferred Taxes
Judgement is required to determine whether deferred tax assets are recognised in the statement of financial position. Recognition of the benefits of the deferred tax assets requires that the Company generate future taxable income. Assumptions about the generation of future taxable income depend on the Company's estimates of future cash flows, which are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure and capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the Company's ability to realise the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws in the jurisdiction in which the Company operates could limit the ability to obtain tax deductions in future periods.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. See note 11 for more information on the deferred tax assets recognised and unrecognised.

Key sources of estimation uncertainty
Oil and Gas Reserve Estimate
Oil and gas reserves are estimated quantities of oil, gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. The process requires interpretation of the available technical data and making many assumptions about future conditions, including price and other economic factors. In preparing such estimates, projection of production rates, timing of development expenditures and available geological, geophysical, production and engineering data are analysed. This process also requires economic assumptions about matters such as oil and gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds.

3. Critical accounting estimates and judgements (continued)

The Company estimates and reports hydrocarbon reserves in line with the principles promulgated by the Society of Petroleum Engineers. As the economic assumptions or interpretations used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Company's reported financial position and results, which include:

- The carrying value of exploration and evaluation assets; and property, plant and equipment may be affected by changes in estimated future cash flows;
- Depreciation and amortisation charges in the Statement of Comprehensive Income may change where such charges are determined using the units of production method, or where the useful life of the related assets change;
- Provisions for decommissioning may require revision - where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities;
- The recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.
- The valuation of contingent consideration will be updated for any changes in expected forecast production as at the reporting date.

4. Revenue

	2022 $'000	2021 $'000
Revenue analysed by class of business		
Crude oil sales	506,108	90,157
Natural gas sales	42,057	10,277
Loss on derivative instruments	(10,419)	(26,872)
Demurrage and other income	2,010	82
	539,756	73,644

All revenue for 2022 and 2021 was earned in the UK.

The transaction price for the oil and gas sales is based on the price of the commodities on the date of sale.

Revenue generated from sales to Shell plc accounted for 94% of the total revenue for the year.

Contract Receivables and Liabilities
For sales at the Alba, Catcher and Kraken fields, production quantities are agreed and are invoiced monthly on this basis. The production remains on the field's storage tanks. The inventory associated with these sales remained on the balance sheet and the revenue was deferred until the production is shipped out of the storage tanks and title to the production transfers to the purchaser.

	2022 $'000	2021 $'000
(Liability)/receivable	(7,953)	8,824

5. Operating (loss)/profit

	2022 $'000	2021 $'000
Operating profit for the year is stated after charging/(crediting):		
Fees payable to the Company's auditor for the audit of the Company's financial statements (note 6)	417	176
Depreciation of development & production assets (note 12)	165,297	14,737
Intercompany recharge	31,245	-
Depreciation of right of use assets (note 12)	60,791	40
Crude Oil inventory movement (within Cost of Sales)	(473)	17,594
Unrealised loss on derivatives	10,419	278
Impairment/(impairment reversal) of property, plant & equipment (note 12)	74,333	(75,485)
Write off of oil and gas intangible assets (note 10)	-	17,333
Change in fair value of contingent consideration (note 21)	91,185	-
Short-term lease rentals	-	77

6. Auditor's remuneration

	2022 $'000	2021 $'000
Fees payable to the Company's auditor and associates:		
For audit services		
Audit of the financial statements of the Company	417	176
For other services		
Tax services	154	65

7. Employees

The average monthly number of persons employed by the Company during the year was:

	2022 $'000	2021 $'000
Operations and administrative	18	7

Their aggregate remuneration comprised:

	2022 $'000	2021 $'000
Wages and salaries	5,063	1,852
Social security costs	679	120
Pension costs	404	94
	6,146	2,066

7. Employees (continued)

Remuneration of Directors

The total remuneration paid by the WEPL Group in respect of the Directors of this Company amounts to $3,430k in the current period (2021: $5,680k). Three of the Directors were directly employed by the Company and two were paid for consultancy services through third party arrangements. All of the Directors perform management duties for the WEPL Group as a whole, though the Directors do not believe it practical to apportion their remuneration between their services as Directors of the Company and as Directors of other group companies.

The highest paid director in the current year received $726k from the Company (2021: $2,418k). The Company paid no pension contributions for this director in the current or prior year.

8. Finance income

	2022 $'000	2021 $'000
Financial instruments measured at amortised cost:		
Bank deposits	-	5
Interest receivable on balances with related parties (note 34)	6,625	-
Other interest income on financial assets	725	1,061
Total finance income	7,350	1,066

9. Finance costs

	2022 $'000	2021 $'000
Interest and fees on bonds (note 22)	26,687	8,441
Unwinding of discount on decommissioning liabilities (note 25)	6,069	1,283
Unwinding of lease liability	20,933	853
Interest payable on balances with related parties (note 34)	29,060	-
Other interest payable	12,512	4
Total finance costs	95,261	10,581

10. Oil and gas write offs

	2022 $'000	2021 $'000
Amounts written off for exploration assets	-	17,333

11. Taxation

	2022 $'000	2021 $'000
Energy Profits Levy	33,934	-
Other taxes	-	252
Adjustments in respect of prior periods	-	134
Total current tax	33,934	386
Deferred tax		
Origination and reversal of temporary differences	(99,769)	(129,372)
EPL	152,733	-
Deferred PRT	(19,006)	-
Adjustments in respect of prior periods	1,346	51
	35,304	(129,321)
Total tax charge/(credit)	69,238	(128,935)

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

	2022 $'000	2021 $'000
(Loss)/profit before taxation	(385,023)	23,488
Expected tax charge based on a corporation tax rate of 55% (PY:40%)	(211,763)	9,395
Effect of expenses not deductible in determining taxable profit	29,195	688
Adjustment in respect of prior periods	1,346	51
Permanent differences relating to impairment of investments and revaluation of contingent consideration	189,755	-
Movements in amounts not recognised	(122,781)	(139,321)
Non ring fence / ring fence tax differential	10,462	-
Income tax suffered on DSA interest earned	-	252
Investment allowances and EPL uplift	(14,881)	-
Group relief	5,521	-
Financing costs not allowed for SCT/EPL	3,720	-
Deferred tax impact of EPL	187,457	-
CT on Deferred Petroleum Revenue Tax	7,602	-
Deferred PRT credit	(19,006)	-
Current impact of EPL	2,611	-
Taxation charge/(credit) for the year	69,238	(128,935)

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

11. Taxation (continued)

	Deferred CT, SCT and EPL on fixed assets $'000	Deferred CT on losses $'000	Deferred CT on PRT refund $'000	Deferred PRT $'000	Decom liability $'000	Investment allowance for SC purposes $'000	Total $'000
Deferred tax liability /(asset) at 31 December 2021	63,561	(194,328)	7,866	(19,666)	-	(10,440)	**(153,007)**
Acquisition (note 13)	242,430	-	-	-	(58,997)	(8,345)	**175,088**
Recognised in statement of comprehensive income	55,540	49,188	7,602	(19,006)	(59,416)	(1,037)	**35,304**
Deferred tax liability/(asset) at 31 December 2022	**366,239**	**(147,415)**	**15,468**	**(38,672)**	**(118,413)**	**(19,822)**	**57,385**

During the year, the Company acquired producing assets from Waldorf Real Estate Limited (formally known as Capricorn North Sea Limited). At the point of acquisition, the Board intended to transfer the assets into the Company to allow for previously unrecognised deferred tax assets held within the Company to be recognised and utilised. Post year end, these assets have been transferred into the Company. The Company has recognised deferred tax assets to the extent that forecasts demonstrate sufficient taxable earnings to utilise these assets.

The Energy Profits Levy ("EPL") was announced on 26 May 2022 and became law on 14 July 2022. This is a new temporary levy which applies to profits from ring fence trades generated on or before 31 March 2028. The rate of EPL applicable from 26 May 2022 until 31 December 2022 was 25%. This rate was increased to 35% for profits earned as from 1 January 2023 (as enacted on 10 January 2023 in the Finance Act 2023).

The introduction of EPL has led to an one off deferred tax charge of $152,733k in the period, on the opening net book value that is included within the 'Deferred CT, SCT and EPL on fixed assets' above. The Law requires profits in the straddling period to be split between the pre 26 May and post 26 May periods on a just and reasonable basis. For the purposes of the provision profits have been apportioned on a time apportionment basis as a reasonable approximation to the actual position. EPL is charged in addition to Ring Fence Corporation Tax which is charged at 30% and the Supplementary Charge which is charged at 10%.

The average ring fence rate applicable in 2022 is 55% and this is the rate that has been used for the purposes of the above tax reconciliation.

Deferred tax has been measured using the rates at which taxable and deductible temporary differences are expected to reverse in the future. Such balances that are expected to reverse prior to 31 March 2028 have been measured at a combined tax rate of 75%.

From 2023 the effective average tax rate on ring fence profits is expected to be 75%.

The Company recognises deferred tax asset on all deductible temporary differences and tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised

The Company has unrecognised net deferred tax assets of $55m in 2022 (relating to entirely non-ring fence items) and $200m in 2021 (relating to both ring fence and non-ring fence items) due to the uncertainty that exists regarding the Company's ability to generate sufficient taxable earnings to utilise these assets.

11. Taxation (continued)

The components of the unrecognised deferred tax asset are:

	2022 $'000	2021 $'000
Unrecognised deferred tax:		
Deferred CT on losses	-	(71,759)
Decommissioning restriction	-	(67,290)
Corporate interest restriction	(7,267)	(13,470)
Non trading deficits	(47,252)	(46,985)
Unrecognised deferred tax	(54,519)	(199,504)

12. Property, plant and equipment and right of use assets

	Other property, plant & equipment $'000	Development & production assets $'000	Total Property, plant and equipment $'000	Right of use assets $'000
Cost				
At 1 January 2021	76	1,172,985	**1,173,061**	-
Additions	43	18,812	**18,855**	-
Asset retirement cost decreases	-	(7,947)	**(7,947)**	-
At 31 December 2021	119	1,183,850	**1,183,969**	-
Acquisitions (note 13)	-	606,075	**606,075**	**273,345**
Additions	-	30,838	**30,838**	-
Remeasurement (note 24)	-	-	-	**72,090**
Asset retirement cost decreases	-	(22,700)	**(22,700)**	-
At 31 December 2022	119	1,798,063	**1,798,182**	**345,435**
Accumulated depreciation and impairment				
At 1 January 2021	45	1,085,489	**1,085,534**	-
Charge for the year	19	14,718	**14,737**	-
Reversal of impairment loss	-	(75,485)	**(75,485)**	-
At 31 December 2021	64	1,024,722	**1,024,786**	-
Charge for the year	23	165,274	**165,297**	**60,791**
Impairment	-	74,333	**74,333**	-
At 31 December 2022	87	1,264,329	**1,264,416**	**60,791**
Carrying amount				
At 31 December 2022	32	533,734	**533,766**	**284,644**
At 31 December 2021	55	159,128	**159,183**	-

12. Property, plant and equipment and right of use assets (continued)

On 3 February 2022, the Company acquired shares in the Catcher and Kraken oil and gas producing assets from its subsidiary Waldorf Real Estate Limited, who disposed of their full non-operated interests. Further details can be found at note 13.

Impairment testing
The Company has assessed the potential impairment of oil and gas assets using the following methodology.

The recoverable amount of each CGU was calculated as their value in use ("VIU"), which was estimated as the net present value of proved plus probable reserves, discounted at the average weighted cost of capital. The oil price used in the 2022 impairment calculation is based on Brent Crude futures prices and are adjusted by field for quality, transportation fees and market differentials. The Company has benefited positively from an improved oil price of around $81-$85 for future cashflows in 2022, compared to $69-$75 in 2021. Gas prices used in the 2022 impairment review are based on National Balancing Point future prices and are adjusted by field for energy content, transportation fees and market differentials. The discount rate used in 2022 was 11.5% (2021: 10.5%).

The Company has recognised impairments of $4.7m and $69.6m on Bacchus and Kraken respectively during the year as the carrying value exceeded the assets' recoverable amounts, due to the impact of the Energy Profit Levy on future earnings.

The key variables that impact the VIU calculation are oil price, field reserves and discount rate. Sensitivities were run on the oil price assumption in 2022 and field reserves, with a 10% change being considered to be a reasonable possible change for the purposes of sensitivity analysis. In 2022, a 10% reduction in oil price or field reserves would have increased the impairment loss by $96.1m.

13. Acquisition of interests in joint operations

On 3 February 2022, non-operated interests in the Catcher and Kraken fields were transferred to the Company from its subsidiary, Waldorf Real Estate Limited (formerly Capricorn North Sea Limited). These transfers have been accounted for as a common control acquisition of interests in joint arrangements, using the pooling of interests method. The net assets acquired were as follows:

	$'000
Property, plant and equipment	879,420
Trade and other receivables	107,720
Inventories	12,309
Lease liabilities	(276,375)
Deferred tax	(175,035)
Decommissioning provision	(147,492)
Trade and other payables	(68,411)
Total net assets acquired and liabilities assumed	332,136
Consideration	(332,136)
Goodwill / bargain purchase	-

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table above. The consideration of US$332.1m equalled the net book value of identifiable assets acquired and liabilities assume and therefore no goodwill or gain on bargain purchase arose on the acquisition.

14. Investment in subsidiaries

Movements in investment in subsidiaries:

	Investment in subsidiaries $'000
Cost or valuation	
At 1 January 2022	304,853
Final completion statement adjustment to existing investment	1,923
Impairment	(251,830)
At 31 December 2022	54,946
Carrying amount	
At 31 December 2022	54,946
At 31 December 2021	304,853

Details of the Company's subsidiaries at 31 December 2022 are as follows:

Name of undertaking	Registered office	Principal activities	Class of shares held	% Held Direct
Waldorf Real Estate Limited	UK	Oil and gas activities	Ordinary	100.00

The aggregate capital and reserves and the result for the year of the subsidiaries noted above was as follows:

Name of undertaking	Capital and reserves $'000	Profit/(loss) $'000
Waldorf Real Estate Limited	54,946	(332.252)

The investment in Waldorf Real Estate Limited is subject to security in respect of the bonds. Under the security, except in the event of a default, the Company retains 100% of the voting rights in respect of Waldorf Real Estate Limited shares including retaining the right to appoint and remove directors.

The Company has recognised an impairment of $251.8m on its investment in Waldorf Real Estate Limited during the year as the carrying value exceeded the net assets of the subsidiary.

15. Investment in associates

Movements in investment in associates:

	Investment in associates $'000
Cost or valuation	
At 1 January 2022	-
Capital contribution	43,684
Impairment	(4,925)
At 31 December 2022	38,759
Carrying amount	
At 31 December 2022	38,759
At 31 December 2021	-

Waldorf Energy Holdings Inc was incorporated in November 2021, of which the Company obtained a 49% share. During 2022, the Company made a non-repayable capital contribution amounting to $43.7 million to allow the investee to purchase a number of assets in the US. There were no changes in the Company's shareholding in Waldorf Energy Holdings Inc as a result of the capital contribution.

The Company has recognised an impairment of $4.9m on its investment in Waldorf Energy Holdings Inc during the year as the carrying value exceeded the net assets of the subsidiary, due to a revision of production profiles.

The Company has a 49% stake in Waldorf Energy Holdings Inc, a holding entity for Waldorf Production US LLC which is involved in energy production in the US. Waldorf Energy Holdings Inc is a private entity that is not listed on any public exchange. The Company's interest in Waldorf Energy Holdings Inc is accounted for using the equity method in the financial statements. The following table illustrates the summarised financial information of Waldorf Energy Holdings Inc:

	2022 $'000
Non-current assets	43,684
Equity	**43,684**
Company's share in equity – 49%	21,405
Capital contribution above Company's share in equity	22,279
Impairment	(4,925)
Company's carrying value of the investment	**38,759**

The Company's share of profit for the year was nil, as the associate made no profit or loss during the period. The associate paid no dividends

The associate had no current assets, current liabilities, contingent liabilities or capital commitments as at 31 December 2022.

16. Inventories

	2022 $'000	2021 $'000
Materials	10,566	4,481

There is no material difference between the balance sheet value of inventories and their replacement cost as at 31 December 2022 (2021: nil).

17. Trade and other receivables

	2022 $'000	2021 $'000
Trade receivables	18,273	190
	18,273	190
Underlift of crude oil	20,252	-
Accrued revenue	34,954	27,102
Tax receivables	957	287
	74,436	27,579

Trade receivables are non-interest bearing and are generally on 30 to 90 day terms.

18. Trade receivables – credit risk

Fair value of trade receivables
The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value. Trade receivables are held at amortised cost.

Ageing of past due but not impaired receivables	2022 $'000	2021 $'000
Trade receivables (all less than 6 months)	-	-

At the year end, the Company has assets to assess under the credit impairment model. In determining the recoverability of a trade or other receivable in 2022, the Company account for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses. The Company assessment, as at 31 December 2022, concluded that no provision for expected credit losses was required.

19. Other current assets

	2022 $'000	2021 $'000
Prepaid costs	1,063	2,283

WALDORF PRODUCTION UK PLC (FORMERLY WALDORF PRODUCTION UK LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

20. Cash and cash equivalents

	2022 $'000	2021 $'000
Cash and cash equivalents	85,320	53,330

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

21. Trade and other payables

	Current		Non-current	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Trade payables	13,066	16,084	-	-
Contingent consideration	134,414	7,015	100,975	87,901
Deferred consideration	-	38,460	-	-
Accruals	28,359	14,164	-	-
Other payables	1,678	33,015	-	58,601
Deferred revenue	28,966	37,730		
Barclays discounting	27,787	-	-	-
Overlift of crude oil	26,656	-	-	-
	260,926	146,468	100,975	146,502

As part of the purchase of the producing assets of the subsidiary, Waldorf Real Estate Limited (formerly Capricorn North Sea Limited), the Company is due to pay additional payments to Capricorn Energy plc, based on the results of the fields. At the end of December 2022, this is estimated to be $134.4m relating to 2022, which is due to be settled in March 2023. There is an additional $101.0m which will be due from 2024 - 2026. During the year, the contingent consideration was revalued upwards by $91.2m mainly due to an increase in forward oil prices and a net increase in the total Catcher and Kraken reserves.

During 2022, the Company entered into a discounting arrangement with Barclays to manage the Company's working capital by accelerating the receipt of cash from a future billing with a customer. $27.8m had been drawn at the end of 2022, which was fully repaid in January 2023. The revolving facility allows the Company to draw down an amount equal to 85% of the expected oil revenue, based on forecast price and production, up to 6 weeks before the revenue is due to be received. The facility attracts an interest charge of 0.55% per annum plus the Secured Overnight Financing Rate (SOFR). Interest and capital repayments are deducted from the invoice from.

Deferred revenue relates to the advance payments received from Shell, which are offset against future revenue billings. The deferred revenue balance at period is settled within 1 year.

22. Borrowings

	2022 $'000	2021 $'000
Secured borrowings at amortised cost		
Bonds	175,000	275,000
Unamortised fee costs	(2,804)	(6,631)
	172,196	268,369

Analysis of borrowings

During 2021, the Company issued bonds in Norway for $300m, with a term of 3 years. The bonds are currently listed on the Nordic ABM, and were listed on 20 December 2021. All the bonds are currently held by third parties. They incur interest at 9.75% per annum. Interest of $23.2m was charged in the year, and fees of $3.5m were charged to the profit and loss. All interest incurred at 31 December 2022 had been paid. They have a maturity date of September 2024, however 7 equal quarterly payments are due to be made over the next 2 years, of $25m each. The bond holders hold security over the bank accounts, the intercompany loan with Waldorf Acquisition Co Ltd, investment in Waldorf Real Estate Limited, and over legal agreements relating to the main producing oil fields – Alba, Columbus Catcher & Kraken.

	2022 $'000	2021 $'000
Current liabilities	100,000	100,000
Non-current liabilities	72,196	168,369
	172,196	268,369

23. Current tax liabilities

	2022 $'000	2021 $'000
Current tax payable	33,934	-

24. Leases

In February 2022, the Company acquired a 20% stake in the Catcher field and a 29.5% stake in the Kraken field, as a result of the acquisition of assets from Waldorf Real Estate Limited (formerly Capricorn North Sea Limited). Each of these fields produce using a FPSO facility and accordingly the Company recognised lease liabilities and right of use assets, which equates to their respective equity shares in the fields. The FPSO leases are held for the producing life of the assets and are leased by the joint operation partners from BW Offshore and BUMI Armada (for Catcher and Kraken respectively).

Set out below is the carrying amounts of the Company's lease liabilities recognised and the movements during the period:

	$'000
At 1 January 2022	-
Acquisition (note 13)	276,375
Accretion of interest	20,933
Payments	(77,111)
Remeasurement of the lease liability	72,090
At 31 December 2022	292,287

	$'000
Current liabilities	54,485
Non-current liabilities	237,802
At 31 December 2022	292,287

As a result of higher oil prices and a successful drilling campaign during the year, the reserves profile for Catcher have improved and the cessation of production (COP) date for the Catcher field was extended from 2026 to 2028. As a result of this, the Company is expected to exercise the option to extend the lease term to align to the field's COP. This required a remeasurement of the lease liability and right of use assets amounting to $72.1m. The lease is remeasured as at 31 December 2022. The Catcher FPSO lease agreement allows the option to extend the lease on a rolling basis at a prescribed rate. The existing Kraken FPSO lease is due to run until September 2027 and contains a purchase clause, that is expected to be exercised prior to that date.

25. Provisions for liabilities

	2022 $'000	2021 $'000
Decommissioning provision	296,032	168,224

Analysis of provisions

Provisions are classified based on the amounts that are expected to be settled within the next 12 months and after more than 12 months from the reporting date, as follows:

	2022 $'000	2021 $'000
Current liabilities	1,173	339
Non-current liabilities	294,859	167,885
	296,032	168,224

Movements on provisions:	Decom provision $'000
At 1 January 2022	168,224
Acquisitions (note 13)	147,492
Changes in decommissioning estimates & foreign exchange rates	(23,630)
Utilisation	(2,123)
Unwinding of discount	6,069
At 31 December 2022	296,032

During the year, the Company recognised credits to the income statement of $1.1m resulting from the revision of decommissioning provisions of fully depreciated assets.

The decommissioning expenditure is expected to be incurred through 2035; however, this timing is dependent on the cessation of production which in turn is dependent on future production levels and the discovery of additional reserves. The major estimates applied to this calculation are discounted at a rate of 3.0% (2021: 1.01%) and the estimated costs of abandonment are provided by the field operators.

The change in decommissioning estimates reflect the revised estimated costs received from field operators of completing decommissioning work. This includes the foreign exchange gains or losses which are originally denominated in GBP.

Certain decommissioning security agreements required security (see Note 34), which results in further costs being incurred and dedicated additional capital.

26. Derivatives

The Company is exposed to certain risks relating to its ongoing business operations. In the year, the primary risk managed using derivative instruments is commodity price risk.

The Company's risk management strategy and how it is applied to manage risk are explained below.

The Company used oil and foreign currency forward contracts to manage some of its transaction exposures. The forward contracts are not designated as cash flow hedges and are entered into for periods consistent with exposure of the underlying transactions.

Financial assets

Derivatives not designated as hedging instruments	**2022 $'000**	**2021 $'000**
FX derivatives	2,762	-
Intercompany derivatives	-	20,942
Total financial assets	2,762	20,942
Total current	2,762	20,942
Total non-current	-	-
Total financial assets	2,762	20,942

Financial liabilities

Derivatives not designated as hedging instruments	**2022 $'000**	**2021 $'000**
Commodity derivatives	15,657	21,200
Total financial liabilities	15,657	21,200
Total current	15,657	14,680
Total non-current	-	6,540
Total financial liabilities	15,657	21,220

Commodity contracts
The Company uses derivative financial instruments to manage its exposure to the oil price, including put and call options, swap contracts and futures. For the year ended 31 December 2022, losses totalling $10.4 million were recognised in respect of commodity contracts designated as FVPL. The mark-to-market value of the Group's open commodity contracts as at 31 December 2022 was a liability of $15.7 million (2021: $21.2 million).

Foreign currency contracts
The Company enters into a variety of foreign currency contracts, in relation to Sterling. During the year ended 31 December 2022, gains totalling $2.8 million were recognised in the income statement. The mark-to-market value of the Company's open contracts as at 31 December 2022 was an asset of $2.8 million (2021: $nil).

27. Financial instruments

Categories of financial instruments

The following table combines information about:

- Classes of financial instruments based on their nature and characteristics; and
- The carrying amounts of financial instruments.

	2022 $'000	2021 $'000
Financial assets at amortised cost		
Trade and other receivables (note 17)	74,436	27,579
Amounts owed by other group companies (note 34)	114,847	125,237
Restricted cash (note 33)	101,760	106,399
Cash and cash equivalents (note 20)	85,320	53,330
	376,363	312,545
Financial liabilities at amortised cost		
Trade and other payables (note 21)	334,113	292,970
Borrowings (note 22)	172,196	268,369
Amounts owed to other group companies (note 34)	435,588	38,427
	941,897	599,766

The carrying value of the Company's financial assets and liabilities measured at amortised cost are approximately equal to their fair value.

Financial instruments risk management objectives and policies

The Company is exposed to financial risks through its various business activities. In particular, changes in interest rates and exchange rates can have an effect on the capital, financial and revenue situation of the Company. In addition, the Company is subject to credit risks.

The Company has adopted internal guidelines, which concern risk control processes and which regulate the use of financial instruments and thus provide a clear separation of the roles relating to operational financial activities, their implementation and accounting. The guidelines on which the Company's risk management processes are based are designed to ensure that the risks are identified and analysed across the Company. They also aim for a suitable limitation and control of the risks involved, as well as their monitoring.

The Company controls and monitors these risks primarily through its operational business and financing activities.

27. Financial instruments (continued)

Credit Risks

The credit risk describes the risk from an economic loss that arises because a contracting party fails to fulfil their contractual payment obligations. The credit risk includes both the immediate default risk and the risk of credit deterioration, connected with the risk of the concentration of individual risks. For the Company, credit and default risks are concentrated in the financial institutions in which it places cash deposits and its financial hedges.

The Company's policy is to place its cash with reputable clearing banks. The Company's cash is predominantly deposited in one bank with a strong credit rating. There is limited credit risk due to the Group's main customer being a large, reputable, well financed organisation.

Liquidity risks

Liquidity risk is defined as the risk that a company may not be able to fulfil its financial obligations. The Company manages its liquidity by maintaining cash and cash equivalents sufficient to meet its expected cash requirements to implement its investment policy. In the event that there is a risk that the cash required to follow the investment policy is greater than the Company's liquid resources, the Company would seek confirmation of the continuation of the policy and the raising of further financing at a shareholder general meeting. All surplus cash is held centrally to maximise the returns on deposits through economies of scale. The type of cash instrument used and its maturity date will depend on the forecast cash requirements.

	Less than 6 months $'000	6 to 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Total $'000
31 December 2022					
Trade and other payables	233,139	-	56,600	44,374	334,113
Intercompany payables	435,588	-	-	-	435,641
Bonds	50,000	50,000	75,000	-	175,000
Barclays discounting	27,787	-	-	-	27,787
Provisions	-	-	1,173	-	1,173
Total	746,567	50,000	132,773	44,374	973,714
31 December 2021					
Trade and other payables	146,468	-	150,815	-	297,283
Intercompany payables	38,427	-	-	-	38,427
Bonds	50,000	50,000	100,000	75,000	275,000
Provisions	-	339	96	1,060	1,495
Total	234,895	50,339	250,911	76,060	612,205

Currency Risks

The Company operates in the UK, incurs expenses predominantly in sterling and USD, and holds cash in sterling and USD. The Company incurs some expenditure in foreign currency when the investment policy requires services to be obtained overseas and when its GBP balances are retranslated into USD at period ends. The foreign exchange risk on these costs is not considered material to the Company.

Climate Related Risks

The Company constantly monitors the latest government legislation in relation to climate-related matters. At the current time, no legislation has been passed that will impact the Company. The Company will adjust the key assumptions used in value in use calculations and sensitivity to changes in assumption should a change be required.

The Company's exposure to foreign currency risk at the end of the reporting period is summarised below. All amounts are presented in USD equivalent.

27. Financial instruments (continued)

	2022 $'000	2021 $'000
Cash and cash equivalents	10,769	2,672
Restricted cash	101,760	66,899
Trade and other payables	(8,241)	(5,178)
Provisions	(296,032)	(168,224)
Net exposure	(191,744)	(103,831)

Sensitivity analysis
As shown in the table above, the Company is primarily exposed to changes in the GBP:USD exchange rate through its balances held in GBP. The table below shows the impact in USD on pre-tax profit and loss of a 10% increase/decrease in the GBP to USD exchange rate, holding all other variables constant.

	2022 $'000	2021 $'000
GBP:USD exchange rate increases 10%	(19,174)	(8,557)
GBP:USD exchange rate decreases 10%	19,174	10,458

28. Share Capital

	2022 $	2021 $
Authorised		
501,400 (2021: 10,000) Ordinary shares of £0.10 each	65,688	1,000
Issued and fully paid		
501,400 (2021: 1,400) Ordinary shares of £0.10 each	65,688	140

On 6 April 2022, the Directors issued 500,000 additional ordinary shares in the Company.

29. Share premium account

	2022 $'000	2021 $'000
Share premium	-	342,846

On 28 January 2022, a special resolution was passed that the share premium account of the Company be cancelled and applied in accordance with the provisions of The Companies (Reduction of Share Capital) Order 2008.

30. Other reserves

	2022 $'000	2021 $'000
Other reserves	1,403,652	1,403,652

Other reserves represent distributable capital contributed to the entity by the previous owners.

31. Retained earnings

On 4 October 2022, the Company declared and paid a dividend of $151.58 per ordinary share in issue, totalling $76 million to its immediate parent Company, Waldorf Acquisition Co. Ltd. The Directors approved the dividend based on the management accounts prepared for the period ended 31 August 2022 and cash flow projections to the end of 2023.

The announcement of an increase to the Energy Profit Levy in November 2022, resulted in further deferred tax liabilities being recognised, asset impairments being booked and the write down of amounts owed by fellow subsidiaries. This caused the Company to enter a net liability position after the dividend was paid.

32. Fair value measurement

The Company is due to pay contingent consideration as part of the consideration to acquire Waldorf Real Estate Limited. This is classified as measured under fair value under IFRS 9. Below outlines the valuation principles and classifications of these assets and liabilities.

Valuation principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique.

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as explained in Note 1.14.

The following tables present the financial liabilities that are measured at fair value for the Company.

Fair value measurement hierarchy for liabilities as at 31 December 2022:

		Fair value measurement using		
	Total $'000	**Quoted prices in active markets (Level 1) $'000**	**Significant observable inputs (Level 2) $'000**	**Significant unobservable inputs (Level 3) $'000**
Contingent consideration	235,388	-	-	235,388
Derivative financial instruments	15,657	-	-	15,657
Total	251,045	-	-	251,045

Financial instruments in level 3:

The valuation technique for the consideration is the discounted cash flow method.

There were no transfers between any levels within the year ended 31 December 2022.

The contingent consideration's fair value is calculated with reference to the observable forward oil and gas prices and estimated production volumes. A +/- 10% change in production volumes would have a $11m/$(11m) (2021: $13m/$(13)m) impact on the fair value of the contingent consideration.

33. Restricted cash

Commitments Related to Asset Retirement Obligations
The Company has entered into decommissioning security agreements related to abandonment liabilities for certain fields. Under these agreements, the Company is required to post security from time to time in the form of letters of credit, cash or other agreed-upon consideration. The Company has collateralized these obligations by posting cash collateral, reflected as "Restricted cash" in the statement of financial position.

The collateral securing decommissioning obligations in connection with certain of the Company's fields is as follows:

	2022 $'000	2021 $'000
Opening balance	106,399	73,515
Additional funds deposited	1,799	39,500
Refund from restricted cash	-	(5,867)
Other	-	(247)
Foreign exchange	(6,438)	(502)
Obligations related to currently producing fields	101,760	106,399

The timing of decommissioning activities for currently producing fields will be determined by the ultimate life of the reservoir.

34. Related party transactions

Remuneration of key management personnel
Key management personnel are remunerated either via consultancy costs through a third party, or via the payroll. The related parties paid via consultancy agreements are as follows:

Related party	Relationship	Value of Transactions 2022 $'000	2021 $'000
Ultima Management AS	Shared Director – Erik Brodahl	726	2,355
Skabo Offshore AS	Shared Director – Jon Skabo	726	2,418
VAC Investments Limited	Shared Director – Aaditya Chintalapati	140	400

The Company rented office space at a market rate from a related party as follows:

Related party	Relationship	Value of Transactions 2022 $'000	2021 $'000
Oakbridge Eiendom AS	Spouse of Director – Siri Eik Brodahl	50	38

For directors who were employed during the year, their director remuneration is as follows:

	2022 $'000	2021 $'000
Wages and salaries	1,591	398
Social security	219	64
Pension	28	7
	1,838	469

34. Related party transactions (continued)

Other transactions with related parties
The following amounts were outstanding at the reporting end date:

	2022 $'000	2021 $'000
Amounts due to related parties		
Loan from subsidiary	332,113	-
Trading balance with subsidiary	103,475	38,427
	435,588	38,427

Included within amounts due to subsidiaries is a loan of $332.2m with Waldorf Energy Real Estate Limited (formerly Capricorn North Sea Limited), which arose on the acquisition of Catcher and Kraken fields in February 2022. Interest is payable on this balance at 9.75%, resulting in an interest charge of $29.1m during 2022. This balance is repayable on demand.

The other intercompany balances are trading in nature, including a recharge of an early redemption fee from a parent company amounting to $31.2m. There is no interest charged on trading balances and the balance is repayable on demand.

The following amounts were outstanding at the reporting end date:

	2022 $'000	2021 $'000
Amounts due within a year from related parties		
Parent company	-	74,214
Fellow subsidiaries	58,075	51,023
	58,075	125,237

	2022 $'000	2021 $'000
Amounts due after a year from related parties		
Parent company	56,772	-
Fellow subsidiaries	-	-
	56,772	-

Included within the amounts due from parent company is a loan of $50.7m to Waldorf Acquisition Co. Limited. This is repayable on demand, but the Company is given 6 months grace period after the demand to make the repayment. This amount incurs interest at 9.75% resulting in an interest receipt of $6.7m during 2022. The directors have confirmed that this will not be demanded until 2025.

The other intercompany balances are trading in nature. An expected credit loss assessment was completed in 2022 and there were no deemed credit losses as a result. There is no interest charged on trading balances and the balance is repayable on demand.

No guarantees have been given or received.

35. Controlling party

The Company's ultimate parent company is Waldorf Energy Partners Limited, a limited liability company registered in England. The directors regard Waldorf Energy Partners Limited as the ultimate parent and controlling party. The smallest and largest group in which the results of the Company are consolidated is that headed by Waldorf Energy Partners Limited. The consolidated accounts are available from One, St Peter's Square, Manchester, United Kingdom, M2 3DE.

The Company is a wholly owned subsidiary of Waldorf Acquisition Co. Ltd, a company registered in England, which is the immediate parent company.

36. Post reporting date events

On 2 March 2023, Waldorf Energy Finance Plc, a wholly owned subsidiary of Waldorf Energy Partners Limited, successfully completed the issue of a USD 150 million 3-year senior secured amortising bond issue with a coupon of 12%. There are no implications for the bond issued by the Company on 1 October 2021.

37. Cash generated from operations

	2022 $'000	2021 $'000
(Loss)/profit for the year after tax	(454,261)	152,423
Adjustments for:		
Depreciation of property, plant and equipment and right of use assets	226,088	14,777
Tax credit/(charge)	69,238	(125,482)
Change in fair value of contingent consideration	91,185	-
Overlift/underlift	(1,296)	-
Finance costs	80,350	8,165
Investment income	-	5
Loss on write off of oil and gas properties	-	17,333
Amortisation of deferred financing costs	-	1,380
Accretion expense on derivatives and decommissioning liabilities	7,044	1,282
Cash settlement of asset retirement obligations	(2,123)	(1,007)
Impairment/(reversal of impairment) of oil and gas properties	74,333	(75,485)
Impairment of investment in subsidiaries	251,811	-
Impairment of investment in associates	4,944	-
Movement in ARO	(1,018)	(479)
Unrealised gain/(loss) on commodity derivatives	10,419	(12,657)
Realised (gain)/loss on commodity derivatives	(12,590)	26,871
Unrealised foreign exchange gains	3,764	491
Movements in working capital:		
Decrease in other current assets	-	17,710
Increase/(decrease) in inventory	6,224	(307)
Decrease/(increase) in trade and other receivables including intercompany debtors	90,804	(135,424)
(Decrease)/increase in trade and other payables including intercompany creditors	(88,125)	50,574
Cash generated from/(absorbed by) operations	356,791	(59,830)

38. Changes in liabilities arising from financing activities

	1 January 2022	Cash flows	Acquisition	Remeasurement of lease liability
	$'000	**$'000**	**$'000**	**$'000**
Borrowings under current liabilities	100,000	(123,156)	-	-
Borrowings under non-current liabilities	168,369	-	-	-
Lease liabilities	0	(77,111)	276,375	72,090
Total	**268,369**	**(200,267)**	**276,375**	**72,090**

	Unwinding	Reclassification between current and non-current	Other	31 December 2022
	$'000	**$'000**	**$'000**	**$'000**
Borrowings under current liabilities	26,687	96,469	-	100,000
Borrowings under non-current liabilities	-	(96,469)	296	72,196
Lease liabilities	20,933	-	-	292,287
Total	**47,620**	**-**	**296**	**464,483**

39. Oil and Gas Reserves Quantities (Unaudited)

Net proven and probable oil and gas reserve quantities for the year ended 31 December 2022 are as follows:

	Oil (mbbl)	Gas (mmcf)
Net proved and probable reserves, beginning of year		
Proven developed reserves	1,861	5,209
Proven undeveloped reserves	813	-
Probable reserves	3,616	4,652
Total	6,290	9,861
Changed during the year		
Acquisition	27,600	1,410
Revisions of previous estimates	398	281
Production	(6,133)	(3,165)
Total	21,865	(1,474)
Net proved and probable reserves, end of year		
Proven developed reserves	13,088	3,444
Proven undeveloped reserves	882	61
Probable reserves	14,185	4,882
Total	28,155	8,387