

NEO Energy Group Limited

Annual Report and Financial Statements

For the year ended 31 December 2022

Registered number: SC470677



NEO Energy Group Limited

Annual Report and Financial Statements For the year ended 31 December 2022

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NEO Energy Group Limited

Directors and Advisers

Directors

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Timothy Dodson
David Gair
Einar Gjelsvik
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Grethe Moen

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NEO Energy Group Limited

Strategic Report

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

Business and Financial Review and Future Outlook

NEO Energy Group Limited ("the Group" or "NEO") was founded in July 2019 as an independent full-cycle energy business in the UK Continental Shelf ("UKCS"). NEO is backed by HitecVision, a leading private equity investor focused on Europe's energy industry.

The strategy of the Group is to build a leading producer in the UKCS. The Group made significant progress in 2022 increasing production to 80,999 boepd (2021: 32,359 boepd) as a result of a full year contribution from the acquisitions of Zennor Petroleum Limited and ExxonMobil CNNS acquired during 2021 and the acquisition of JX Nippon Exploration and Production (U.K.) Limited ("JX UK") in March 2022. Following completion of these transactions, the Group holds a diverse portfolio of oil and gas assets, predominantly located in the Central and Northern North Sea.

The Group increased revenue from \$878.9 million to \$3,659.0 million and profit after tax from \$455.9 million to \$940.2 million as a result of the increase in production and a supportive commodity pricing environment.

The Group and Company undertook a series of capital reductions in the year and paid dividends totalling \$1,830.2 million.

Acquisitions

On 29 March 2022, the Group completed the acquisition of 100% of the share capital of JX UK for a total consideration of \$1,137.8 million. JX UK is involved in the development and production of hydrocarbons within the UKCS and its primary licence interests are an 18.01% interest in the Culzean field and a 20.00% interest in the Mariner field. The latest business combination continues the Group's strategy of building a leading producer in the UKCS.

Results of Operations

	2022 \$'000	2021 \$'000
Revenue	3,659,018	878,942
Profit after tax	940,160	455,907
Capital expenditure (note 14)	389,911	92,234
Net debt (note 28)	1,716,421	1,086,855

The Group made a profit after tax of \$940.2 million (2021: \$455.9 million). The Group's profits have been transferred to reserves.

• Revenue

Revenue for the year ending 31 December 2022 totalled \$3,659.0 million (2021: \$878.9 million), positively impacted by revenue from the full year contribution of acquisitions together with higher commodity prices. Revenue included \$37.2 million of net realised hedging gains (2021: \$113.2 million losses) arising from commodity hedging arrangements.

The Group realised an average oil price for the year of \$97 per barrel (2021: \$77 per barrel). The Group's realised oil price per barrel including the effects of oil hedging contracts which were settled during 2022 was \$96 per barrel (2021: \$76 per barrel).

The average realised gas price during 2022 was 204 pence per therm (2021: 188 pence per therm). The Group's realised price per therm including the effects of gas hedging contracts which were settled during 2022 was 208 pence per therm (2021: 133 pence per therm).

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• Profit after tax

The main factors driving the movement between the years are:

- The Operating costs were \$629.2 million (2021: \$209.0 million). Operating costs per barrel were \$21 per boe in 2022 compared with \$27 per boe in 2021.
- The DD&A expense for the year was \$703.9 million (2021: \$219.4 million) resulting in an equivalent DD&A rate of \$24 per barrel of production (2021: \$19 per barrel).
- The Group recorded an impairment charge in the year of \$77.3 million (2021: \$nil) in respect of the Western Isles field. This was driven primarily by a reduction to the expected life of the field.
- In 2022 a gain on bargain purchase of \$1,050.3 million was recognised in relation to the JX UK acquisition as disclosed in note 12 due to the recognition of deferred tax losses on an undiscounted basis, favourable movement in commodity prices prior to completion, and the outperformance of the assets during the interim period. In 2021, excess of fair value over costs of acquisition arose on the acquisitions of Zennor (\$64.3 million) and ExxonMobil CNNS (\$210.8 million); and a \$56.1 million gain resulting from the Flyndre Affleck licence exchange.
- Finance costs incurred of \$353.3 million (2021: \$87.1 million) primarily relate to loan interest and fees of \$155.7 million (2021: \$43.0 million), and hedging costs of \$101.3 million (2021: \$17.1 million). Also included within finance costs were the interest costs associated with the unwinding of decommissioning provisions and contingent consideration discounting of \$45.8 million (2021: \$19.6 million), and other finance costs totalling \$50.5 million (2021: \$7.4 million).
- Other expenses \$24.7 million (2021: \$23.9 million) primarily relate to costs for the acquisition of NEO Energy Petroleum Limited (formerly JX Nippon Exploration & Production (U.K.) Limited), and additional costs relating to the ExxonMobil CNNS acquisition.
- Tax charge of \$1,921.1 million (2021: \$84.6 million) comprises \$334.2 million cash current tax liability and \$1,586.9 million deferred tax charge in relation to Corporation Tax ("CT"), the Supplementary Charge ("SCT") and the Energy Profits Levy ("EPL").

On 26 May 2022, the UK Government announced the introduction of a new "windfall" tax on the energy industry called the Energy Profits Levy. The levy was introduced at 25% in addition to 30% ring fence corporation tax and the 10% supplementary charge to corporation tax increasing the effective tax rate from 40% to 65%. The measure included an 80% investment allowance applicable to EPL, was effective immediately on 26 May 2022 and was intended to remain in place until 31 December 2025. As part of the Autumn Statement on 17 November 2022, the UK Government announced an increase in the EPL rate from 25% to 35% and a reduction in the investment allowance to 29% effective from 1 January 2023. It is intended that the levy will remain in place until the end of March 2028. The further EPL rate increase brings the effective tax rate from 65% up to 75% and was substantively enacted during the year.

• Capital expenditure

Capital expenditure incurred in the year ended 31 December 2022 totalled \$389.9 million compared with \$92.2 million in 2021. The principal capital expenditure in the period related to development and drilling expenditures at the Penguins, Affleck, Mariner, Finlaggan, Golden Eagle and GPIII fields.

• Net debt

Drawn loans under the RBL facility increased from \$1,403 million at 31 December 2021 to \$2,249 million at 31 December 2022. The increase in debt was primarily utilised to fund the JX Nippon Exploration & Production (U.K.) Limited acquisition.

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Key Performance Indicators

The Group establishes key financial and non-financial performance indicators (“KPIs”) each year to monitor performance against the annual operating plan as detailed in the table below. The evaluation of the KPIs for the year ended 2022 are discussed below and in other sections within the Strategic Report.

	2022	2021
Annual Production of Oil and Gas (MMboe)	29.6	11.8
Operating Cash Flow	\$2,745.1m	\$440.3m
Safety – TRIF frequency	1.9	1.9
ESG – Carbon intensity (kgCO ₂ e/boe)	21.1	25.0

Abbreviations:

MMboe – Millions of barrels of oil equivalent

TRIF – Total recordable incident frequency (per million man hours)

o Oil and Gas Reserves

Net attributable MMboe	2P Reserves
At 1 January 2022	229.2
Production	(29.6)
Acquisitions	61.9
Disposals	-
Revision of previous estimates	26.1
At 31 December 2022	287.6

The table above represents the Group’s estimate of its proven and probable (“2P”) reserves, using the definitions of reserve categories of the Society of Petroleum Engineers (SPE) and reviewed and jointly sponsored by the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG) and the Society of Petroleum Evaluation Engineers (SPEE). Whilst reserves represent the Group’s own assessment of reserves, an independent external specialist is engaged for the purpose of assessing the appropriateness of the Group’s internal estimate.

o Operating Cash Flow

Operating cash inflow of \$2,745.1 million (2021: \$440.3 million) was driven by favourable commodity prices and a full year of contribution from acquisitions.

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Operations summary

o Production assets

Production of the Group for the year averaged 80,999 boepd (2021: 32,359 boepd). This comprised 60,101 boepd from the Group's existing assets and a contribution of 20,898 boepd from assets acquired during the year.

The table below presents the unaudited production volumes of the Group. Production in relation to assets acquired during the period has been included from the date of acquisition.

Production volumes – unaudited (boepd)	2022	2021	Operator	Group's working interest
Culzean	16,307	-	TotalEnergies	18.01%
Shearwater area	13,259	666	Shell	44.5-72%
Finlaggan	10,624	3,624	NEO	100%
Gannet cluster	7,558	465	Shell	50%
Golden Eagle	7,187	11,802	CNOOC	31.56%
Elgin Franklin	5,350	316	TotalEnergies	4.38%
Quad 15	4,686	4,303	NEO	100%
Mariner	3,714	-	Equinor	20%
ETAP area	1,778	492	BP	12.65-25%
Babbage	1,672	1,992	NEO	60%
Western Isles	1,483	2,193	Dana Petroleum	23.08%
Other producing assets	7,381	6,506	Various	Various
Total	80,999	32,359		

In 2022, the production mix of the Group on a barrel of oil equivalent basis was 49% oil and 51% gas (2021: 78% oil and 22% gas). The increase in gas production reflects the impact of the acquisitions made during the period.

Significant activity in the year included:

Quad 15

- Life extension activities were continued including the receipt of formal Class extension to 2026

Finlaggan

- The Finlaggan field was brought onstream in late 2021 and 2022 reflects the first full year of production
- A third production well was sanctioned during 2022 and drilling operations commenced in early 2023

Golden Eagle

- The Golden Eagle JV sanctioned two additional subsea production wells during 2022. The first well spudded in Q3 2022 but did not locate reservoir quality sands and so was plugged and abandoned. The second well is currently drilling

Gannet Cluster

- A new well at Gannet B was brought onstream during 2022 and a new Gannet F well was sanctioned with drilling expected to commence in H1 2023

o Development assets

The major ongoing developments are Penguins and Affleck.

NEO holds a 50% interest in the Shell (50%) operated Penguins project. In 2017 the Penguins partnership took the final investment decision to redevelop the Penguins field via a newbuild floating production, storage and offloading ("FPSO") vessel. The redevelopment comprises drilling 8 new production wells alongside the existing 7 production wells. Construction of the newbuild FPSO was substantially completed during 2022 and

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the vessel left its construction site in China in early 2023 prior to final commissioning and hook up activities. First production is targeted for 2023.

NEO is 100% owner and operator of the Affleck redevelopment project. Affleck was initially developed via the Janice platform but was shut in during 2016 when Janice ceased production. The field will be redeveloped by connecting the existing two production wells via a new pipeline and control umbilical to the Judy Platform. A field development plan and associated environmental documentation have been submitted to the relevant authorities and NEO is awaiting final regulatory approvals.

Principal risks and uncertainties

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

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

Operational Risks

Health, Safety and the Environment (HSE)

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

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

All events are robustly reported, recorded and investigated to identify root causes and identify and implement effective corrective and preventative measures. Stop the work authority is reinforced continually on our assets, so that staff and contractors know that they are empowered and expected to stop the work should they believe there is a potential health, safety or environmental risk associated with any activity they are involved in. The Board regularly monitors a range of safety performance metrics including TRIF rate which was a KPI during the period.

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

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

Production and reserves

Risk: The level, quality and production volumes from the Group's oil and gas reserves could vary from the 2P reserves quantities reported if assumptions on which the reserves estimates have been based prove incorrect.

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

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Organisation design and capability

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

Mitigation: To attract and retain key talent NEO has a competitive reward package supported by talent development, performance management programmes and a safe and attractive working environment.

The NEO Management System (“NMS”) has been designed to enable critical activities to be identified and managed so that risks to the health and safety of employees and to the environment are reduced to a level deemed to be as low as reasonably practicable (“ALARP”). This helps ensure that we have the correct systems and processes in place to support the talent within the organisation to deliver success.

Strategic Risks

Project execution and delivery

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

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

Liquidity and funding

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

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

External Risks

Commodity price, inflation, interest rate and currency risk

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

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

The Group manages the risk of cost escalation via active monitoring of market conditions and early engagement with partners and supply chain to identify future contracting requirements and ensure that cost is minimised as best possible. The Group also seeks to build lasting contractual relationships with supply chain partners to ensure efficient contracting strategies and optimised value.

The Group has a hedging programme to mitigate its exposure to fluctuations in oil and gas prices, interest rates and foreign exchange rates, in accordance with a Board-approved Hedging Policy and also to adhere to minimum hedging levels required by Reserve Based Lending facility. Hedges to mitigate exposure to fluctuations in oil and gas prices will typically cover a proportion of anticipated production over periods of up to three years, with declining percentages of cover for each successive future period. NEO also selectively hedges currency, interest rate and carbon price exposure where appropriate. NEO actively engages with the supply chain to understand potential constraints and pricing such that its investment decisions reflect prevailing market conditions.

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Cyber Security

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

Mitigations: The Group has established procedures in place to address cyber security risk and has disaster recovery solutions as mitigations to any potential attack.

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

Climate Change

Climate-related risks and associated mitigation, strategies and actions are assessed at Board and Executive Leadership team levels. A Board sub-committee for Environmental, Social and Governance ("ESG") has been established to support the board on ESG related matters.

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

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

Mitigation:

- NEO has mapped a decarbonisation route to achieve the regulator's targets and NEO's Low Carbon Transition Plan in reducing carbon intensity. Carbon pricing is input into corporate modelling to quantify and more clearly understand the impact to the business. This is also discussed in the annual Task Force on Climate-related Financial Disclosures ("TCFD") through qualitative analysis for the climate-related risk scenarios identified by the International Energy Agency.
- NEO has an ESG Strategy and Low Carbon Transition Plan that are aligned with investor expectations. Additionally, NEO has made good progress with lenders to identify and map ESG KPIs for the company to ensure ongoing support from investors.
- NEO is continuing to demonstrate its commitment to being a responsible operator, and decarbonization through the Group's ESG Strategy and Low Carbon Transition Plan.
- NEO have adverse weather, contingency and response plans. Weather changes are not likely to happen immediately, as such, there is time to plan and prepare for further mitigations. Physical risk is also discussed under the different International Energy Agency's climate-related risk scenarios in the TCFD.
- NEO stress tests the portfolio under a range of commodity price forecasts including low price scenarios where demand is significantly reduced.

NEO is aligned with industry bodies to support the UKCS move towards Net Zero greenhouse gas emissions and has developed a Low Carbon Transition Plan which includes two key ambitions; firstly, reduce the carbon intensity per barrel of oil equivalent produced by the portfolio by 50% by 2030, based on Scope 1 & 2 emissions using the Equity Share approach, and secondly to be Net Zero by 2050. NEO mapped a pathway to delivering the 2030 target, which is supported by Emission Reduction Action Plans and is continuing to develop an understanding of the route to net zero by 2050. The emission reduction plans include efficiency optimisation, power generation upgrades, reduction in flaring and venting, AI and investing in technology and systems, such as full or partial electrification. NEO collaborate with partners and industry associations to explore available carbon abatement opportunities.

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Regulatory and Fiscal Change

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

Mitigations: The newly introduced EPL, announced in the Autumn Statement, is factored into investment decisions and financial planning. NEO will continue to engage with HM Treasury ("HMT") and industry bodies on short term impacts of EPL and the longer term tax regime.

NEO Energy participates in industry associations and bodies, such as Offshore Energies UK ("OEUK"), UK Oil Industry Taxation Committee ("UKOITC") and Association of British Independent Oil Exploration Companies ("BRINDEX"), who engage with the government on behalf of the industry. The Group also participates in fiscal change consultations. NEO also actively monitors political and fiscal risks.

Section 172(1) Statement

The Directors are required by law to act in a way that promotes the success of the Company for the benefit of its stakeholders as a whole.

The Group's success depends on the ability to engage effectively with stakeholders. The Group's Board considers, both individually and collectively, that they have acted in good faith, taking actions to promote the success of the company for the benefit of its members as a whole, having regard to matters set out in section 172(1) (a) to (f) of the Companies Act in the decisions taken during the financial year ending 31 December 2022.

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

People

NEO's people continue to be key to the Group's success and to embody what NEO stands for in terms of ensuring safety, first and foremost, setting the highest standards of business and ethical conduct and delivering the business strategy.

NEO's core values are underpinned by teamwork, respect and courage which are the basis for creating a positive impact for our people and communities. The Group is committed to playing a role in society: employing and investing in people and driving economic growth for the UK. 2022 has seen the establishment of NEO's Charity Committee, actively supporting local causes and sponsoring the higher education of young people from diverse backgrounds. The Group's policy commits to ensuring no modern slavery or human trafficking in any part of our business, including our supply chain, and the company's percentage of women employed in the workplace, and in leadership, is above the industry average of 18%, with no equal pay or gender pay gap issues.

Environmental, Social and Governance

Environment

The Group monitors and reports emissions to track our impact on the environment. To minimize our impacts on the climate, NEO have committed to reduce greenhouse gas emission intensity per barrel of equivalent (kg CO₂/boe) produced by NEO's portfolio by 50% by 2030 and to be net zero by 2050, which is set out in the Low Carbon Transition Plan and aligns with the goals set out by the North Sea Transition Deal (NSTD) and Maximising Economic Recovery (MER).

The emissions associated with NEO's operations occur throughout the value chain. Emissions sources include the direct operations of our own assets and our partner-operated assets (scope 1), indirect emissions from the energy used to power our operations (scope 2) and emissions throughout our value chain (scope 3). In 2022, the Group completed steps towards mapping out a 5-year emission reduction plan, incorporating increasing climate literacy and developing a sustainable culture. This is preparing the Group for future reporting regulations such as the Sector Neutral Framework (through the Transition Plan Workforce) whilst ensuring tangible deliverables against the NSTD and towards net zero.

As part of its ESG strategy, the Group recognises the importance of partnerships and collaboration with stakeholders including employees, regulators, partners, industry bodies and societies, to achieve goals. This is

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especially important for achieving NEO's Low Carbon Transition Plan of carbon intensity reduction for scope 1 emissions by 50% by 2030, which can only be reached through collaboration on alternative power solutions, technology development and full or partial electrification.

Social

Living free from discrimination is a human right and eliminating all forms of discrimination should be a key priority for all individuals, companies, and governments. For companies, this means providing equal opportunities for all everyone with regards to access to jobs, career development, remuneration and benefits. We refrain from all forms of discrimination in all our operations. The Group believe that everyone should have the same opportunities, regardless of their age, gender, ethnicity, or religion. NEO is fully committed to its workforce and embraces a positive, inclusive culture, investing in our staff to reach their full potential.

As the UK's 5th largest oil and gas producer, the Group has an impact on the local communities it operates in by creating employment opportunities, by investing in its assets which has in turn positively impacts the supply chain and creates further job opportunities, through taxes and also through corporate social responsibility activities. NEO also supports local charities across the UK and sponsors higher education programmes, providing people opportunities to achieve their full potential.

Governance

The Board, with their diverse skills, industry experience and knowledge, is accountable for the strategic direction and long term success of the Group, and for ensuring long term value to the shareholders.

The Board delegates a number of its responsibilities to its committees, as detailed in the Directors' Report with the Chair of each committee formally reporting on proceedings.

Tax and transparency - European transparency directive disclosure

NEO is committed to acting with honesty and integrity in respect of tax laws and regulations and has met all its statutory requirements. This includes the disclosures and submissions made to comply with the requirements of the Extractive Industry Transparency Initiative (EITI), Country-by-Country Reporting (CBCR) and the 2014 Reports on Payments to Government Regulations (PTG), which implemented the requirements of the EU's Accountancy and Transparency Directives into UK law. The table below summarises taxes and licence fees related to the Group's operated assets paid in 2022.

	Income taxes	Licence fees	Total
Area/company level	\$'000	\$'000	\$'000
Lochranza	-	36	36
Finlaggan	-	337	337
Babbage	-	423	423
Dumbarton	-	1,025	1,025
Corporate	80,135	-	80,135
Total	80,135	1,821	81,956

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Risk management

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

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

Approved by the Board and signed on its behalf:

DocuSigned by:

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Martin Bachmann
Director and Chairman

30 March 2023

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Directors' Report

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

Directors

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

Martin Bachmann
John Knight
David Gair
Einar Gjelsvik
Fiona Hill
Grethe Moen
Timothy Dodson (Appointed: 23 February 2022)
Nicholas Hooke (Resigned: 23 February 2022)

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

Dividends

The Directors recommended and approved the payment of dividends totalling \$1,830.2 million during the year (2021: \$nil).

Principal Activities and Future Outlook

NEO Energy Group Limited ("the Company") holds investments in other Group companies (together, "the Group"). The Group's and Company's principal activities are the acquisition, exploration, development and production of offshore oil and gas reserves in the UK sector of the North Sea. The future outlook has been documented in the Strategic Report.

Group Funding and Going Concern

The financial statements have been prepared on the going concern basis. Further information relating to the going concern assumption is provided in note 3, including the basis of the Director's assessment of the Group and the Company's ability to continue as a going concern.

Financial Instruments and Financial Risk Management

The Group finances its activities with a combination of external debt, equity and cash generated from operations. Other financial assets and liabilities, such as trade and other receivables, trade and other payables, cash and cash equivalents and restricted cash arise directly from the Group's operating activities.

The Group's operations expose it to financial risks, including the effects of changes in commodity prices, foreign exchange rates and interest rates. The Group has a risk management strategy in place which includes regular monitoring of financial risk exposure and undertaking hedging activities when appropriate (see Strategic Report and note 22).

Statement of corporate governance arrangements

During 2022 the Group met the threshold for the requirement to publish a statement of corporate governance arrangements pursuant to the Companies (Miscellaneous Reporting) Regulations 2018. The Group has made the decision to adopt the Wates Corporate Governance Principles for Large Companies (published by the Financial Reporting Council in December 2018) (the "**Wates Principles**"), which will apply to our reporting going forward. The following sections set out how the Wates Principles were applied during 2022.

NEO Energy Group Limited

Principle 1 – Purpose and Leadership

Purpose

NEO Energy is an independent full-cycle energy business in the UK Continental Shelf (UKCS), backed by HitecVision, a leading private equity investor focused on Europe's offshore energy industry. The Group purpose is focused on safely and sustainably helping meet the energy needs of the UK.

Values and culture

The Company's Board of Directors and the Executive Leadership team are committed to the Group's core values of teamwork, respect and courage which underpin the Group's culture.

Strategy

The Group's strategy is to build a leading producer in the UKCS through operational excellence and a combination of organic and inorganic growth, underpinned by a culture of continual improvement.

Excel: Operational Excellence

Operational excellence is vital to unlocking the value we see in assets and provides the opportunity to maximise potential, and drive profitability and sustainable returns

Optimise: Organic Growth

- We look to achieve a significant level of organic growth by examining field life extension opportunities for the fields where we operate, as well as continually reviewing in-field bolt-on opportunities
We look for opportunities for near-field exploration and enhanced hydrocarbon recovery; extending the life of the fields where we have a presence

Grow: Growth by Acquisition

- With a focus on high-quality, long life production and development assets in the UKCS, we target strategic acquisition opportunities that are value accretive and complement our portfolio, either operationally or geographically
- We continue to screen and evaluate investment opportunities with these characteristics, and look at those that give us operatorship and development exposure

Principle 2 – Board Composition

Board composition and Executive Leadership Team

The Company's Board of Directors comprises Martin Bachmann (Chairman), John Knight, David Gair, Einar Gjelsvik, Fiona Hill, Grethe Moen and Timothy Dodson. All the Directors operate on a non-executive basis and John Knight and Einar Gjelsvik are senior partners at the Group's private equity backers, HitecVision. The members of Executive Leadership Team are Paul Harris (CEO & COO), Andrew McIntosh (General Counsel and Head of Business Services), Robert Gair (CFO) and Martin Rowe (Chief Technical Officer).

Balance and diversity

The Board and the Executive Leadership Team are made up of individuals with diverse skills, industry-relevant experience and knowledge. The Board is accountable for setting the strategic direction and long-term success of the Group and for ensuring long-term value to the Group's shareholders. The Chairman leads the Board and ensures that the views of all Directors are considered in the decision-making process. In addition, at each Board meeting the Directors review, with the Executive Leadership Team, the progress against strategic priorities and the changing shape of the business portfolio. This collaborative approach by the Board, together with the Board's approval of the Group strategy, helps it to promote the long-term success of the Group.

NEO Energy Group Limited

The Board seeks to ensure the protection of the Group's people, the public, its assets, and the environment in which it operates. It is also focused on maintaining financial discipline and delivering strong earnings, cash flow and shareholder value.

Principle 3 – Directors' Responsibilities

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

The Board recognise the importance of solid governance and prioritise effective decision making. In order to assist with this, the Group has established three Board committees and one subcommittee. The Board delegates a number of its responsibilities to its committees, with the Chair of each committee formally reporting on proceedings.

- **Technical & Commercial Assurance Committee (TCAC)** evaluates assets and potential investments for strategic, financial, operational, and reputational impact. ESG-related aspects, including climate-related impacts, regulatory requirements and the Emissions Trading Schemes (EU ETS / UK ETS) are regularly included in the TCAC's reviews.
- **Audit & Risk Committee (ARC)** Material business risks and opportunities identified by the Group, are presented and discussed with the ARC quarterly. The responsibilities of the ARC includes reviewing the financial statements of the Company and Group before they are presented to the Board for approval. The ARC also reviews the quality and adequacy of the Company's systems for internal control and financial reporting process.
- **Remuneration Committee** reviews salaries, compensation, and bonus structures. The bonus structure is based on individual and company performance. Considerations for the company performance include cash flow, carbon intensity, production, and health and safety.
- **ESG Committee** reviews and directs ESG strategy, ensuring ESG policies and procedures are fit for purpose. The committee monitors progress against agreed ESG targets, reviews ESG reporting and ensures ESG risks are appropriately recognised and evaluated.

Decisions within the Group are made in accordance with the articles of association of the Company and an approved delegation of authority standard. In reaching their decisions, the Directors consider their responsibilities under the Companies Act 2006.

The Group is compliant with all applicable anti-corruption legislation and is committed to acting fairly and ethically and to preserving the trust and confidence of business partners, and anyone else affected by our operations. The Anti-corruption Policy sets out the ethical principles to which NEO strictly adheres to on a global basis in relation to bribery and corruption and reporting.

We also adhere to several policies to ensure ethical and transparent reporting. The policies are based on leading international standards for responsible business conduct, including the UN Global Compact and the UN Guiding Principles on Business and Human Rights. Our goal is to make ethical, responsible and profitable decisions when conducting business.

Principle 4 – Opportunity and Risk

Risk management

The Group evaluates and ranks a variety of risks and employs an Enterprise Risk Manager to assist the Board and Executive Leadership Team in the identification, evaluation and management of risk. Principle risks are those considered of greatest relevance to the Group. Principal risks are sponsored by members of the Executive Leadership Team and regularly reviewed with the Board. Principal Risks are categorised as either:

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

NEO Energy Group Limited

The Group's risks, together with the mitigations employed to manage these risks, are set out within the Strategic Report.

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

Opportunities

The Board actively seeks opportunities to enhance the Group's business in line with its strategic objectives. NEO actively monitors its liquidity position and the company's strategic plan, and investment decisions are evaluated under a range of operational and economic scenarios, including sustainable development considerations (economic, social and environmental) to ensure the business can fund all its commitments. NEO has a strong cash position, a supportive shareholder and a good reputation with its banking group, supporting continued access to capital should it be required.

Principle 5 – Remuneration

The purpose of the Company's Remuneration Committee is to create and maintain appropriate reward policies to attract executives who will achieve results in the interest of the Company and its shareholders. The Remuneration Committee meets to review and advise the Board on matters relating to salaries, compensation and bonus structures.

During 2022, the Remuneration Committee considered a range of issues, including:

- Determination of the Group's bonuses in respect of the 2021 performance period, including those payable to members of the Executive Leadership Team
- Determination of the Group's salary increases applied in 2022, with reference to market data in respect of industry peer companies

Principle 6 – Stakeholder Relationships and Engagement

The Board's goal is to protect its people, the public, the Group's assets, and the environment in which they work and live, therefore maintaining its reputation. This commitment is in the best interests of the employees and all associated stakeholders, including regulatory bodies, government authorities, and environmental bodies. The group engages externally through a variety of means, including informal meetings, committee meetings and through engagement in industry forums where applicable.

The Board also focuses on maintaining financial discipline and delivering strong earnings, cash flow and shareholder value.

The Board will continue to assess and monitor culture within the Group and will look to obtain useful insights through effective dialogue with the Group's key stakeholders and having regard to their views in the Board's decision-making process. During the period the Group conducted an employee engagement survey to ensure the views of the workforce were gathered and considered in decisions made.

Streamlined Energy and Carbon Reporting

NEO has prepared a streamlined energy and carbon report covering emissions categorised as Scope 1 Equity (Direct GHG Emissions) and Scope 2 (Electricity Indirect GHG Emissions) as required under environmental reporting guidelines for large unquoted companies.

NEO is reporting on an Equity Share approach, as defined by *The Greenhouse Gas Protocol, A Corporate Accounting and Reporting Standard*. Equity share reflects the economic interest and NEO's emissions are based on information provided from the operator of each Joint Venture.

Emissions (CO₂ Equivalent) classed as Scope 1 Equity, include emissions from the use of fuel gas and diesel at the Group's offshore assets.

NEO Energy Group Limited

The increase in direct GHG emissions from 2021 to 2022 is related to acquisitions of assets in 2022. However, the ongoing focus on production optimisation, emissions reduction and strategic acquisitions has resulted in a decrease in carbon intensity.

Emissions reported as Scope 2 (purchased electricity for own use), are from the leased onshore office facilities in the UK. This has increased from 2021 to 2022 as a result of data being made available for Hays House in Guildford from H2 2022.

Scope 3 emissions are reported for transport and supply vessels for operated assets and business travel. Business travel was not included in 2021.

Key emissions and carbon intensity figures are included below.

	2022	2021
Scope 1 Equity. Direct GHG emissions (GHG Protocol Corporate Standard Scope 1 equity, tonnes of CO ₂ e)*	674,740	322,728
Scope 2. Energy indirect GHG emissions (GHG PCS Scope 2, in tonnes of CO ₂ e)	86	50
Carbon intensity - Scope 1 & 2 (kgCO ₂ e/boe)	21	25
Scope 1 energy consumption in MWh	3,316,126	1,610,837
Scope 2 energy consumption in MWh	439	156
Scope 3 related emissions for transport (helicopter and supply vessels) for direct operated assets (in tonnes of CO ₂ e) and business travel.	3,590	298

* Scope 1 emissions figures provided for NEO are calculated using the Equity Share approach. Emissions are unverified as at the date of this report.

The Group is continuing to execute its ESG roadmap and strategy. As part of this, the operated assets are continually reviewed to identify the opportunities for operational efficiencies. The Group focus on an influencing strategy to ensure the operators of non-operated assets remain focused on emission reduction actions and the carbon abatement plans are executed in a timely manner.

Other

Ukraine/Russia ongoing tensions

During 2022, the geopolitical situation in Eastern Europe intensified with Russia's invasion of Ukraine. This tension caused the introduction of further sanctions on Russia to be imposed by the UK government. The conflict has had a significant impact on commodity prices through increased volatility which are Group are monitoring on a regular basis. NEO does not expect the situation to have a significant impact on its supply chain and operations.

Post Balance Sheet Events

On 7 March 2023 the Group repaid \$328.5m of the borrowings drawn under its RBL facility.

On 28 March 2023, the Board approved a dividend payment of \$100 million.

NEO Energy Group Limited

Directors' confirmations

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

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

Signed on behalf of the Board:

DocuSigned by:

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Martin Bachmann
Director and Chairman

30 March 2023

NEO Energy Group Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulation.

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

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

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

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

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

Independent auditors' report to the members of NEO Energy Group Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- NEO Energy Group Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2022 and of the group's profit and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Statements of Financial Position as at 31 December 2022; the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Changes in Equity and the Consolidated Statement of Cash Flow for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

NEO Energy Group Limited

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and 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 group or the company or to cease operations, or have no realistic alternative but to do so.

NEO Energy Group Limited

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

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

- Enquiries made of the Board of Directors, certain key management personnel and in-house legal team around known or suspected instances of non-compliance with laws and regulations, claims and litigation, and instances of fraud;
- Enquiries made of the tax team in relation to any actual or potential disagreements with the tax authorities;
- Understanding management's controls designed to prevent and detect irregularities;
- Review of board minutes;
- Challenging management on assumptions and judgements made in their significant accounting estimates;
- Identifying and testing journal entries with specific focus on entries containing unusual account combinations in response to the risk of management override of controls.

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

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

Use of this report

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

NEO Energy Group Limited

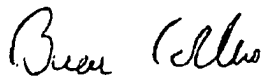
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Bruce Collins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
30 March 2023

NEO Energy Group Limited

Consolidated Income Statement For the year ended 31 December 2022

	Note	2022 \$ 000	2021 Restated* \$ 000
Petroleum revenues		3,639,256	874,865
Other operating income		19,762	4,077
Total revenue	5	3,659,018	878,942
Operating costs		(629,161)	(209,047)
Movement in petroleum inventory		(38,656)	(52,278)
Depletion, depreciation and amortisation	14	(703,918)	(219,372)
Impairment of property, plant and equipment	14	(77,300)	-
Administrative expenses		(35,436)	(25,261)
Gain on bargain purchase	12	1,050,271	331,193
Gain on disposal of assets		949	7,367
Fair value changes in contingent consideration	17,20	9,199	(63,098)
Other expenses		(24,675)	(23,851)
Operating profit	6	3,210,291	624,595
Finance income	8	4,244	3,006
Finance costs	9	(353,266)	(87,090)
Profit before income tax		2,861,269	540,511
Income tax	10	(1,921,109)	(84,604)
Profit for the year after income tax		940,160	455,907

Consolidated Statement of Comprehensive Income For the year ended 31 December 2022

		2022 \$'000	2021 \$'000
Profit for the year after tax		940,160	455,907
Items that may be classified to income statement:			
Fair value movement on cash flow hedges	21	569,655	(216,113)
Tax on cash flow hedges	10	(312,386)	89,655
Foreign currency translation differences	26	(72,836)	(17,981)
Total other comprehensive income/(expense) for the year		184,433	(144,439)
Total comprehensive income for the year		1,124,593	311,468
Attributable to:			
Owners of the parent		1,124,593	311,468

* The comparative 2021 results have been restated to disclose expenses by nature

The notes on pages 29 to 75 form an integral part of these financial statements.

NEO Energy Group Limited

Consolidated Statement of Financial Position As at 31 December 2022

	Note	2022 \$ 000	2021 Restated* \$ 000
ASSETS			
Non-current assets			
Intangible assets	13	147,552	147,552
Property, plant & equipment	14	4,950,835	4,493,957
Derivative assets	21	45,900	3,953
		5,144,287	4,645,462
Current assets			
Trade and other receivables	15	496,644	437,300
Cash and cash equivalents	16	514,862	292,028
Derivative assets	21	386,732	96,216
Inventory		40,790	29,351
		1,439,028	854,895
Total assets		6,583,315	5,500,357
LIABILITIES			
Current liabilities			
Corporation tax	10	(305,062)	(56,416)
Lease liabilities	14	(1,487)	(1,071)
Trade and other payables	17	(847,704)	(528,405)
Provisions	19	(110,510)	(43,586)
Derivative liabilities	21	(59,386)	(236,126)
		(1,324,149)	(865,604)
Non-current liabilities			
Deferred tax liabilities	10	(1,147,494)	(413,946)
Lease liabilities	14	(7,721)	(10,365)
Loans and other borrowings	18	(2,222,075)	(1,367,447)
Provisions	19	(1,560,369)	(1,480,082)
Other non-current liabilities	20	(117,174)	(436,075)
Derivative liabilities	21	-	(16,932)
		(5,054,833)	(3,724,847)
Total liabilities		(6,378,982)	(4,590,451)
Net assets		204,333	909,906
EQUITY			
Capital and reserves			
Called up share capital	23	66	66
Share premium	24	-	547,920
Capital reserve	25	(40,024)	(40,024)
Cash flow hedge reserves	21	130,811	(126,458)
Currency translation reserves	26	(91,723)	(18,887)
Retained earnings	27	205,203	547,289
Total equity		204,333	909,906

* The comparative 2021 results have been represented to disclose the current derivative assets and liabilities separately within the Consolidated Statement of Financial Position.

These financial statements were approved and authorised for issue by the Board on 30 March 2023 and are signed on its behalf by:

Declassified by:

Martin Bachmann
 Director and Chairman

The notes on pages 29 to 75 form an integral part of these financial statements.

Registered number: SC470677

NEO Energy Group Limited

Company Statement of Financial Position As at 31 December 2022

	Note	2022 \$'000	2021 \$'000
ASSETS			
Non-current assets			
Investment	11	50,222	50,222
		50,222	50,222
Current assets			
Trade and other receivables	15	7,882	327,785
Cash and cash equivalents	16	4,041	170,409
		11,923	498,194
Total assets		62,145	548,416
LIABILITIES			
Current liabilities			
Trade and other payables	17	(693)	(3,181)
Provision	19	-	(5,033)
		(693)	(8,214)
Non-current liabilities			
Provisions	19	-	(1,291)
		-	(1,291)
Total liabilities		(693)	(9,505)
Net assets		61,452	538,911
EQUITY			
Capital and reserves			
Called up share capital	23	66	66
Share premium	24	-	547,920
Capital reorganisation	25	1,028	1,028
Currency translation reserve	26	(18,839)	(18,839)
Retained earnings	27	79,197	8,736
Total equity		61,452	538,911

As a consolidated income statement is published in these financial statements, a separate income statement for the Company is not presented within these financial statements as permitted by Section 408 of the Companies Act 2006. The Company reported a profit for the year of \$1,352.7 million (2021: \$0.7 million loss).

These financial statements were approved and authorised for issue by the Board on 30 March 2023 and are signed on its behalf by:

DocuSigned by:
Martin Bachmann
803DA7806E104CF

Martin Bachmann
Director and Chairman

The notes on pages 29 to 75 form an integral part of these financial statements.

NEO Energy Group Limited

Consolidated Statement of Changes in Equity For the year ended 31 December 2022

	Share capital (Note 23) \$'000	Share premium (Note 24) \$'000	Capital reserve (Note 25) \$'000	Cash flow hedge reserve \$'000	Currency translation reserve (Note 26) \$'000	Retained earnings / (deficit) (Note 27) \$'000	Total \$'000
Balance at 1 January 2021	50	270,503	(40,024)	-	(906)	91,382	321,005
Comprehensive income / (expense)							
Profit for the year	-	-	-	-	-	455,907	455,907
Other comprehensive expense	-	-	-	(126,458)	(17,981)	-	(144,439)
Total comprehensive (expense) / income for the year	-	-	-	(126,458)	(17,981)	455,907	311,468
Transactions with owners							
Issue of share capital	16	277,417	-	-	-	-	277,433
Balance at 31 December 2021	66	547,920	(40,024)	(126,458)	(18,887)	547,289	909,906
Comprehensive income / (expense)							
Profit for the year	-	-	-	-	-	940,160	940,160
Other comprehensive income / (expense)	-	-	-	257,269	(72,836)	-	184,433
Total comprehensive income / (expense) for the year	-	-	-	257,269	(72,836)	940,160	1,124,593
Transactions with owners							
Capital reduction	-	(547,920)	-	-	-	547,920	-
Dividends paid	-	-	-	-	-	(1,830,166)	(1,830,166)
Balance at 31 December 2022	66	-	(40,024)	130,811	(91,723)	205,203	204,333

The notes on pages 29 to 75 form an integral part of these financial statements.

NEO Energy Group Limited

Company Statement of Changes in Equity For the year ended 31 December 2022

	Share capital (Note 23) \$'000	Share premium (Note 24) \$'000	Capital reserve (Note 25) \$'000	Currency translation reserve (Note 26) \$'000	Retained earnings (Note 27) \$'000	Total equity \$'000
Balance at 1 January 2021	50	270,503	1,028	(18,839)	9,444	262,186
Comprehensive expense						
Loss for the year	-	-	-	-	(708)	(708)
Total comprehensive expense for the year	-	-	-	-	(708)	(708)
Transactions with owners						
Issue of share capital	16	277,417	-	-	-	277,433
Balance at 31 December 2021	66	547,920	1,028	(18,839)	8,736	538,911
Comprehensive income						
Profit for the year	-	-	-	-	1,352,707	1,352,707
Total comprehensive income for the year	-	-	-	-	1,361,443	1,361,443
Transactions with owners						
Capital reduction	-	(547,920)	-	-	547,920	-
Dividends paid	-	-	-	-	(1,830,166)	(1,830,166)
Balance at 31 December 2022	66	-	1,028	(18,839)	79,197	61,452

The notes on pages 29 to 75 form an integral part of these financial statements.

NEO Energy Group Limited

Consolidated Statement of Cash Flow For the year ended 31 December 2022

	Note	2022	2021 Restated*
		\$'000	\$'000
Cash flows from operating activities			
Cash generated from operations	28	3,038,717	517,026
Tax paid	10	(87,152)	-
Interest received	8	4,244	1,255
Letter of credit fees paid	9	(11,166)	(4,523)
Hedging costs through finance costs		(71,984)	(17,061)
Interest and facility fees paid		(127,528)	(56,391)
Net cash inflow from operating activities		2,745,131	440,306
Cash flows from investing activities			
Proceeds from investment sale		-	3,000
Business combination consideration paid; net of cash acquired	12	(1,094,679)	(1,044,120)
Decommissioning cash security release	12	82,514	-
Payments of contingent consideration	17	(95,467)	-
Purchases of property, plant and equipment	14	(364,927)	(96,115)
Net cash (outflow) from investing activities		(1,472,559)	(1,137,235)
Cash flows from financing activities			
Issue of share capital	23	-	86,232
Settlement of loan with parent	12	(39,049)	-
Repayment of loan facility	18	-	(325,123)
Drawdown of loan facility	18	846,320	1,154,697
Dividends paid to company's shareholders		(1,830,169)	-
Lease liability payments		(2,228)	(435)
Net cash (outflow)/inflow from financing activities		(1,025,126)	915,371
Net increase in cash and cash equivalents		247,446	218,442
Net foreign exchange difference		(24,612)	(15)
Cash and cash equivalents at beginning of year		292,028	73,601
Cash and cash equivalents at end of year	16	514,862	292,028

*The 2021 comparatives have been represented to show the effects of hedging costs through operating activities and to present Letter of credit fees paid within operating activities, consistent with other interest related payments.

The notes on pages 29 to 75 form an integral part of these financial statements.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

1 General information

The consolidated financial statements of NEO Energy Group Ltd for the year ended 31 December 2022 which comprise the Company and all its subsidiaries ("the Group"), were approved by the board of directors and authorised for issue on 30 March 2023. NEO Energy Group Limited is a Private Company limited by shares and incorporated and domiciled in the United Kingdom, and registered in Scotland. The Company's registered office address is The Silver Fin Building (9th Floor), 455 Union Street, Aberdeen, AB11 6DB, UK.

The nature of the Group's operations and its principal activities are development and production of oil and gas, as set out in the Strategic Report.

The consolidated financial statements are presented in United States Dollars (\$), which is the functional currency of the Company and Group, because that is the currency of the primary economic environment in which the Company and Group operate.

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

2 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial statements have been prepared on the historical cost basis, except for certain financial assets and liabilities (including derivative financial instruments) which have been measured at fair value.

The parent company financial statements are prepared in accordance with the Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK (UK-adopted international accounting standards), but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions.

The preparation of financial statements in conformity with IFRS required the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3 below.

Subsidiary undertakings exemption from audit

The following subsidiary companies will take advantage of the exemption from audit under section 479A of the Companies Act 2016 ('the Act') for the year ended 31 December 2022:

NEO Energy (North Sea) Limited
 NEO Energy Oil & Gas Limited
 NEO Energy Enterprises (North Sea) Limited
 NEO Energy (ZEL) Limited
 NEO Energy (ZNS) Limited
 NEO Energy (ZOG) Limited

Summary of disclosure exemptions

The following exemptions from the requirements of IFRS have been applied in the preparation of the parent company financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
 - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS).
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information).
 - 111 (statement of cash flows information); and
 - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows.'
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

3 Summary of significant accounting policies

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

New and amended standards and interpretations

During the year, the group adopted the following new and amended IFRSs for the first time for their annual reporting period commencing 1 January 2022:

- Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2022, the IASB issued Amendments to IFRS 3 Business Combinations – Reference to Conceptual Framework. The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

- Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

- Annual Improvements to IFRS Standards 2018-2021

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

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

New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the group.

- Classification of Liabilities as Current or Non-current - Amendments to IAS 1

In January 2020, the IASB issued a narrow-scope amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are classified as non-current if the entity has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The Group does not consider this amendment to have significant impact on the classification of its liabilities as either current or non-current when the standard becomes effective on 1 January 2023.

- Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a new definition of accounting estimates and clarifies the distinction between changes in accounting estimates from changes in accounting policies, with the distinction important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events. The Group does not consider this amendment to have significant impact on the definition of accounting estimates when the standard becomes effective on 1 January 2023.

- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the Board issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them. The Group does not consider this amendment to have significant impact on the classification of accounting policies when the standard becomes effective on 1 January 2023.

- Reporting on Insurance Contracts – amendments to IFRS 17

In June 2020, the IASB amended the standard which sets out requirements for a company reporting information about insurance contracts it issues and reinsurance contracts it holds. The amendments are aimed at helping companies implement the Standard and to make it easier to explain their financial performance. Management are

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

continuing to assess the impact this amendment will have on the Group when the standard becomes effective on 1 January 2023.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – amendments to IAS 12

In May 2021, the IASB issued amendments to IAS 12 Income Taxes. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. According to the amended guidance, a temporary difference that arises on initial recognition of an asset or liability is not subject to the initial recognition exemption if that transaction gave rise to equal amounts of taxable and deductible temporary differences. The proposed amendments will typically apply to transactions such as leases for the lessee and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The impact of the adoption of this standard is currently under assessment.

Going concern

In preparation of the financial statements, the Directors have made an assessment of the Group and the Company's ability to continue as a going concern. As at 31 December 2022, the Group had net current liabilities excluding cash of \$400.0 million, cash balances of \$514.9 million and long term liabilities of \$5,054.8 million which include non-current debt of \$2,222.1 million under the Group's loan facility. The Group closely monitors and manages its liquidity risk by producing cash forecasts to ensure that it has sufficient funds to meet forecast cash requirements. Sensitivities are run for different scenarios including, but not limited to, changes in commodity prices and production rates.

The Group's going concern assessment covered the period to September 2024.

The assessment included severe but plausible downside commodity price scenarios including a scenario in which there was a sudden decrease to an oil price of \$40/bbl and a gas price of 70p per therm, followed by a staged recovery to the prevailing forward curve. Other scenarios assessed included a significant operational event resulting in a one month loss of production entitlement in respect of a material asset and a 3 month delay to the Penguins development project.

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) up to 31 December each year. Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to business combinations and goodwill section below).

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the transferred asset.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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Notes to the financial statements for the year ended 31 December 2022

Prior year restatements

The prior year comparatives included within the Consolidated Income Statement; Consolidated Statement of Financial Position and Consolidated Statement of Cash Flow have been restated. The Consolidated Income Statement has been restated to present the costs by nature. Current derivative assets of \$96.2m and liabilities of \$236.1m which were previously presented within trade and other receivables and trade and other payables are presented separately on the Consolidated Statement of Financial position. The Consolidated Statement of Cash Flow has been restated to present Realised hedging costs through finance costs of \$17.1m separately within Cash flows from operating activities and to present Letter of credit fees paid of \$11.2m within Cash flows from operating activities. The restatements did not result in any change to Profit for the year; net increase in cash and cash equivalents or the net balance sheet.

Investments in Joint operations and joint ventures

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

In addition, where the Group acts as operator to the joint operation, the gross receivables and liabilities (including amounts due to or from non-operating partners) of the joint operation are included in the consolidated Statement of Financial Position. The Group's licence interests are shown in note 29.

Subsidiaries and listed investments

Subsidiaries and listed investments in the Company's balance sheet are stated at cost less, where appropriate, provisions for impairment.

Business combinations and goodwill

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its fair value at acquisition.

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

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

Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments is measured at fair value, with changes in fair value recognised either in the statement of profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured, and subsequent settlement is accounted for within equity.

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

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

Goodwill and intangible assets impairment

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

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, goodwill is tested for impairment at the level that management monitor the goodwill. See note 13 for further details on the impairment testing of goodwill and intangible assets.

Petroleum revenue recognition

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

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

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

Lifting or offtake arrangements for oil and gas produced by certain of the Group's joint operations are such that each participant may not receive and sell its precise share of the overall production in each year. The resulting imbalance between cumulative entitlement and cumulative liftings is 'underlift' or 'overlift'. Underlift and overlift oil inventory is valued at net realisable value using an observable year-end oil or gas market price and included within other payables or receivables respectively. Movements during the accounting period are recognised within movement in petroleum inventory in the income statement.

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

Operating costs

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

Pensions

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

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

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

Foreign currency

The Company is a management company which incurs costs in multiple currencies with United States Dollars cost being the most significant.

The Group's presentational currency is United States Dollars and the company's functional and presentational currency is United States Dollars.

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

For the purposes of the consolidation, the income statement items of those entities for which the United States Dollars is not the functional currency are translated into United States Dollars at the average rates of exchange during the period. The related balance sheets are translated at the rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income or expense and accumulated in the Group's currency translation reserves within equity.

When the entity is disposed of, such translation differences relating to it are recognised as income or expense.

Cash and cash equivalents

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

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

Inventory

All inventories, except for petroleum products, are stated at the lower of cost and net realisable value. The cost of production materials and capital spares is the purchase cost, determined on a first-in, first-out basis. Petroleum products and underlift and overlift positions are measured at net realisable value using an observable year-end oil or gas market price, and are included in other payables or receivables respectively.

Exploration and evaluation (E&E) expenditure

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

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

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

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

Property, plant and equipment - development and production assets

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

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

At each balance sheet date, the Group assesses assets or groups of assets, called cash generating units ('CGU's), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable. If any such indication exists, the Group makes an estimate of the asset's recoverable amount using a fair value less costs of disposal method. The CGU applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a single CGU where the cash inflows of each field are interdependent. Discounted cash flow models comprising asset-by-asset life of field projections and risks specific to assets, using Level 3 inputs (based on IFRS 13 fair value hierarchy), have been used to determine the recoverable amounts. The cash flows have been modelled on a post-tax basis at management's estimate of a market participant weighted average cost of capital (WACC).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to the recoverable amount. The resulting impairment losses are written off to the income

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Notes to the financial statements for the year ended 31 December 2022

statement. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

Asset swap / exchange

If the group enters into a transaction that involves exchanging part or all of its future production interest in a field for an interest in another field, it first determines the accounting requirements of whether the transaction represents the exchange of assets or a business combination. If control is obtained over a property that meets the definition of a business then a business combination has occurred and the requirements of IFRS 3 will apply. If the transaction meets an exchange of asset, the acquired item is measured at the fair value of assets relinquished unless the fair value of asset or assets received is more readily determinable. A gain or loss is recognised on the difference between the carrying amount of the asset given up and fair value recognised for the asset received. If a fair value cannot be determined the acquired item is measured at cost, which will be the carrying amount of the asset given up and there will be no resulting gain or loss. The group also follows the guidance under IAS 16 in determining when an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction.

Property, plant and equipment

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

Office equipment:	3-5 years
Furniture and fittings:	3-5 years
Leasehold improvements:	over the lease term

Decommissioning

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

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

These provisions have been created based on internal and third-party estimates. Assumptions based on the current economic environment have been made which management believe are a reasonable basis upon which to estimate the future liability.

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

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Notes to the financial statements for the year ended 31 December 2022

Leases

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

Lease liabilities arising from a lease, are initially measured at the present value of the lease payments to be made over the lease term and are discounted using the interest rate implicit in the lease or the group's incremental borrowing rate where the interest rate implicit in the lease is not available. Liabilities have been measured at the present value of the remaining lease payments, discounted using a rate of 5%, which is the Group's estimate of the incremental rate relating to office leases.

Lease payments are split between financing cash flows and operating cash flows in the cash flow statement. Financing cash flows represent repayment of principal portion of the lease liability. Interest charged on the lease liability is classified as operating cash flows, consistent with interest paid on other forms of financing.

Financial instruments

a) Classification and measurement

Financial assets

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

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

All the Group's financial assets as at 31 December 2022 satisfy the conditions for classification at amortised cost under IFRS 9 except derivative financial instruments which are measured at fair value through profit or loss or fair value through other comprehensive income.

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

Financial liabilities

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

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

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

b) Impairment of financial assets

Recognition of impairment provisions under IFRS 9 is based on the expected credit loss (ECL) model. The ECL model is applicable to financial assets classified at amortised cost and contract assets under IFRS 15: Revenue

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

from Contracts with Customers. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date, about past events, current conditions and forecasts of future economic conditions.

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

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

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

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

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

Financial liabilities

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

c) Modification

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

d) Offsetting of financial assets and financial liabilities

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

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

e) Derivatives

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

Cash flow hedges

The cash flow hedge reserve represents gains and losses on derivatives classified as effective cash flow hedges. Upon the designation of option instruments as hedging instruments, the intrinsic and time value components are not separated.

The effective portion of gains and losses arising from the remeasurement of derivative financial instruments designated as cash flow hedges are deferred within other comprehensive income and subsequently transferred to the income statement in the period the hedged transaction is recognised in the income statement. When a hedging instrument is sold or expires, any cumulative gain or loss previously recognised in other comprehensive income remains deferred until the hedged item affects profit or loss or is no longer expected to occur. Any gain or loss relating to the ineffective portion of a cash flow hedge is immediately recognised in the income statement. Hedge ineffectiveness could arise if volumes of the hedging instruments are greater than the hedged item of production, or where the credit worthiness of the counterparty is significant and may dominate the transaction and lead to losses.

For foreign currency exposures, any realised gains or losses are recognised as finance costs in the income statement together with any realised gain or losses on interest rate hedges. Premiums in respect of commodity hedges are also included within finance costs.

f) Fair value of financial instruments

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

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

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

See note 21 for further details on recognition of fair value measurements classification in accordance with the hierarchy described in IFRS 13 'Fair value measurement'.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

Cash flow hedge reserve

The cash flow hedge reserve represents gains and losses on derivatives classified as effective cash flow hedges. Upon the designation of option instruments as hedging instruments, the intrinsic and time value components are not separated.

4 Critical accounting estimates and judgements

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

Critical accounting estimates

Oil and gas reserves

Oil and gas reserves are estimated by the Group in accordance with industry standards. The estimates are based on the Group's own assessment of internal information and information received from operators, whilst an external specialist is engaged for the purpose of assessing the appropriateness of the Group's internal estimate. Based on internal expert's view, certain contingent volumes that do not meet the reserve industry criteria are included if they are considered to be sufficiently mature.

Reserves are used in the calculation of depletion, depreciation and amortisation of producing oil and gas assets, impairment testing and may influence life of field assumptions that impact the assumed timing of decommissioning activities. The reserve estimates may change based on various factors including updated production and reservoir information and changes in underlying assumptions such as assumed petroleum prices and cost estimates which may impact the assumed economic cut-off of oil and gas fields.

Decommissioning

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

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

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

The estimated decommissioning costs and the pre-tax discount rate applied take into account the effects of inflation and the risks and uncertainties concerning amounts to be settled in the future. See note 19 for details on sensitivities.

Business combinations

Where acquisitions are accounted for as business combinations, the Group values the identifiable assets and liabilities associated with the acquisition based on currently available information on the fair values at the acquisition date. The fair value of assets is based on estimates of future cashflows expected to be derived from the production of commercial reserves, along with future commodity price assumptions and an appropriate discount factor (see note 12 for details of key assumptions used).

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

Acquisition costs incurred are expensed and included in other expenses. Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its fair value at acquisition.

Impairment of development and production assets and goodwill

Goodwill and intangible assets that have an indefinite useful life are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. For the purpose of impairment testing, goodwill is allocated to a cash-generating unit (CGU), or groups of CGUs.

For development and production assets an impairment test is performed only when events and circumstances arising during the development or production phase indicate that there is an indicator of impairment.

Where an impairment test is conducted, the aggregate carrying value is compared against the expected recoverable amount of the CGU or CGUs, generally by reference to the present value of the future net cash flows calculated on the basis of expected production profiles and estimated proven, probable and risked possible reserves. Impairment testing uses future commodity price, opex and capex assumptions and an appropriate discount factor, in order to calculate the future cash flows. These cash flows are compared to the net book values carried by the Group to ascertain whether an impairment charge should be applied.

The key estimates relate to the future production and cost profile, oil and gas prices, discount rate and inflation rate. Judgement is also required in the assessing whether an indicator of impairment exists and in grouping oil and gas assets into appropriate CGUs as alternative groupings of assets or CGUs may result in a different outcome from impairment testing. See note 13 for details more details on assumptions and sensitivities used.

Other accounting estimates

Climate Change

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

As at the balance sheet date the Group believes there is no material impact on balance sheet carrying values of assets or liabilities. Management's view is that at the end of the current reporting period there is no significant risk of climate change resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Critical accounting judgements

Classification of preference shares

The Company has determined that the preference shares as detailed in note 23 are equity instruments. Both the common shares and the preference shares are only redeemable by the Company by resolution of the shareholders and therefore any decision to redeem either class of shares would be made by the shareholders acting in their role as decision makers for the Company in a General Meeting. There is no fixed or future date for redemption. Although the preference shareholders are entitled to receive any distributions made in priority to any dividend on the common shares, all dividends are subject to declaration of an ordinary resolution by the Company and therefore the decision to declare or pay a preference dividend is also made by all shareholders as part of the ordinary decision making activities of the business in a General Meeting. A dividend must not be declared unless the directors have made a recommendation as to its amount and a dividend must not exceed the amount recommended by the directors. In addition, distributions arising in other circumstances such as a listing, sale or winding up would need to be agreed by all the shareholders acting in their role as decision makers for the Company.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

and do not create an unconditional obligation for the Company to pay cash or another financial instrument until such decisions are made in a General Meeting.

5 Revenue

An analysis of the Group's revenue from contracts with customers is as follows:

	2022	2021
	\$ 000	\$ 000
Oil revenue	1,437,228	602,759
Gas and condensate revenue	2,202,028	272,106
Total petroleum revenue	3,639,256	874,865
Tariff income	19,265	3,972
Other income	497	105
Total other operating income	19,762	4,077
Total revenue	3,659,018	878,942

Petroleum revenue of \$3,601.5 million (2021: \$988.1 million) were from contracts with customers. This excludes realised hedging gains of \$37.7 million (2021: \$113.2 million loss).

6 Operating profit

	2022	2021
	\$ 000	\$ 000
Operating profit is stated after charging / (crediting):		
Depletion, depreciation and amortisation (note 14)	703,918	219,372
Gain on bargain purchase (note 12)	(1,050,271)	(331,193)
Gain on disposal of assets	(949)	(7,367)
Fair value changes in contingent consideration	(9,199)	63,098
Other expenses	24,675	23,851
Auditors' remuneration		
Group audit fee	593	399
Subsidiary audit fee	395	266

Gain on bargain purchase relates to JX acquisition as disclosed in note 12. In 2021, gain on bargain purchase arose on the acquisitions of Zennor (\$64.3 million) and ExxonMobil CNNS (\$210.8 million); and to a \$56.1 million gain resulting from the Flyndre Affleck licence exchange.

The gain on disposal in 2022 relates to completion payments in relation to the Flyndre/Affleck asset swap. The gain on disposal in 2021 related to the gain on the Flyndre disposal (\$4.0 million) and other immaterial disposals.

Fair value changes in contingent consideration in 2022 arose due to a change in the discount rate from 3.84% to 7.56% used in the calculation to determine the present value of future payments. The 2021 movement was as a result of revaluation of contingent liabilities following changes to the Group's commodity price assumptions.

Other expenses includes final completion settlements in respect of prior acquisitions (\$13.8 million), insurance costs (\$3.5 million) and costs incurred in respect of business development activity during the period. The 2021 expenses included the transaction costs incurred in respect of the acquisitions of Zennor Petroleum Limited and ExxonMobil CNNS Limited.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

7 Staff costs

The Company had no employees during the year (2021: none).

The staff costs of the Group comprised:

	2022 \$'000	2021 \$'000
Wages and salaries	29,084	21,710
Social security costs	4,143	3,581
Pension costs – defined contribution	2,108	2,114
Other employee benefit costs	1,516	2,356
	36,851	29,761
	2022 No.	2021 No.
Average monthly number of employees including Directors in the year		
Technical and operations	123	97
Management and administration	81	61
	204	158

An element of the Group's staff costs was charged to projects and capitalised to the extent that they are directly attributable to capital projects, in accordance with the Group's accounting policy.

Employment contracts are held by NEO Energy Upstream UK Limited. The Group operates a defined contribution pension plan and the amounts charged to the income statement represent the contributions payable in the year.

Six (2021: five) directors of the Group received remuneration in respect of their services during 2022.

The aggregate emoluments of the directors of the Group for the year were as follows:

	2022 \$'000	2021 \$'000
Directors' emoluments	852	789

The six (2021: five) directors who received the emoluments above were remunerated through NEO Energy Upstream UK Limited. Directors' emoluments for the year include \$0.7 million paid under consultancy agreements (2021: \$0.4 million). Also included in the above, is a recharge for directors appointed to represent HitecVision VI, LP, HitecVision VII, LP and HitecVision North Sea Opportunity Fund, LP for 2022.

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	2022 \$'000	2021 \$'000
Emoluments	395	465

Key management personnel remuneration is disclosed in note 29.

8 Finance income

	2022 \$'000	2021 \$'000
Interest income	4,244	1,255
Gain on foreign exchange	-	1,751
	4,244	3,006

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

9 Finance costs

	2022	2021
	\$ 000	\$ 000
Letters of credit and surety bonds	11,166	4,523
Bank charges, loan fees and interest	155,746	43,013
Interest expense on lease liabilities	527	323
Hedging costs and realised losses	101,299	17,061
Unwinding of discount on contingent payments	13,484	2,538
Unwinding of discount on decommissioning provisions (note 19)	45,799	19,632
Loss on foreign exchange	25,225	-
	353,266	87,090

10 Tax

	2022	2021
	\$'000	\$'000
Current tax:		
UK corporation tax	12,249	18,068
Energy Profits Levy (EPL)	320,151	-
Prior year adjustment	1,837	-
	334,237	18,068
Deferred tax:		
Origination and reversal of temporary differences	650,120	57,560
Derecognition of deferred tax asset	2,726	-
Recognition of deferred tax liability on EPL	956,012	-
Prior year adjustments	(24,027)	8,976
Deferred petroleum revenue tax	2,041	-
Total tax charge	1,921,109	84,604

Factors affecting tax charge for year:

Group

The difference between the tax expense in the income statement and the amount calculated by applying the standard rate of UK corporation tax for oil and gas extraction activities of 30% (2021: 30%) and a supplementary charge of 10% (2021: 10%).

	2022	2021
	\$'000	\$'000
Profit before tax	2,861,269	540,512
Tax on profit at rate of 40% (2021: 40%)	1,144,508	216,205
Effects of:		
Non-deductible or non-taxable items	(424,143)	(116,171)
Ring fence expenditure supplement	(84,099)	(34,019)
EPL impact of income taxable at different tax rates	320,151	-
Prior year adjustments	(22,191)	8,976
Investment allowance	(22,324)	(26,623)
Deferred tax asset for losses not recognised	2,726	36,236
Movement in deferred petroleum revenue tax	2,041	-
Deferred tax recognised on EPL	956,012	-
Impact of different tax rates	48,428	-
Total tax charge for the year	1,921,109	84,604

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Notes to the financial statements for the year ended 31 December 2022

On 26 May 2022, the UK Government announced their decision to introduce a new “windfall” tax on the energy industry called the Energy Profits Levy (EPL). The levy was introduced at 25% in addition to 30% ring fence corporation tax and the 10% supplementary charge to corporation tax bringing the effective tax rate from 40% up to 65%. The measure included an 80% investment allowance applicable to EPL and was effective immediately on 26 May 2022 and intended to remain in place until 31 December 2025.

As part of the Autumn Statement on 17 November 2022, the UK Government announced their decision to increase the EPL from 25% to 35% and reduce the investment allowance to 29% effective from 1 January 2023. It is intended that the levy will remain in place until the end of March 2028. The further EPL rate increase brings the effective tax rate from 65% up to 75% and was substantively enacted during the year.

Group

The Group has a deferred tax liability of \$1,147.5 million on its ring fence trade (2021: \$413.9 million deferred tax liability).

The Group also has non ring fence corporation tax losses of \$270.4 million (2021: \$188.9 million) which are available indefinitely for offset against future profits. Deferred tax assets have not been recognised in respect of these losses due to the uncertainty of suitable future profits from which they can be deducted.

Deferred tax included in the balance sheet is as follows:

Deferred tax liability	Provisions \$'000	Derivatives \$'000	Tax losses \$'000	Accelerated tax depreciation \$'000	Petroleum revenue tax \$'000	Total \$'000
At 1 January 2021	226,068	-	311,266	(328,158)	-	209,176
Prior year adjustments	(1,638)	(5,007)	(3,160)	827	-	(8,978)
Acquisition of Zennor & ExxonMobil CNNS (note 12)	349,438	5,007	450,901	(1,449,223)	-	(643,877)
Exchange rate differences	(2,362)	-	-	-	-	(2,362)
Charged to OCI	-	89,655	-	-	-	89,655
Charged to the income statement	29,924	-	(117,025)	29,541	-	(57,560)
At 31 December 2021	601,430	89,655	641,982	(1,747,013)	-	(413,946)
Prior year adjustments	5,487	12,243	(141,378)	159,918	-	36,270
Acquisition of JX Nippon	156,209	-	1,379,875	(380,657)	14,602	1,170,029
Exchange rate differences	(2,876)	626	(30,508)	29,065	-	(3,693)
Charged to OCI	-	(325,255)	-	-	-	(325,255)
Charged to the income statement	(92,750)	-	(770,901)	(745,207)	(2,041)	(1,610,899)
At 31 December 2022	667,500	(222,731)	1,079,070	(2,683,894)	12,561	(1,147,494)

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

	2022	2021
	\$'000	\$'000
Deferred tax liability		
Accelerated capital allowances	(2,690,663)	(1,747,013)
Derivatives	(228,458)	-
	(2,919,121)	(1,747,013)

Deferred tax asset		
Tax losses carried forward	1,091,566	641,982
Provisions	667,500	604,640
Derivatives	-	86,445
Petroleum revenue tax	12,561	-
	1,771,627	1,333,067

Disclosed on the balance sheet:

Deferred tax liability	1,147,494	413,946
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11 Investment

	2022	2021
Group	\$'000	\$'000
Cost – listed investment	225	225
Provision for change in market value	(225)	(225)
At 31 December 2022 and 31 December 2021	-	-

The listed investment is in Otto Energy Limited, an oil and gas exploration and production company listed on the Australian stock exchange. The investment was acquired as part of the acquisition of Verus Petroleum UK Limited, now NEO Energy Upstream UK Limited.

Company – shares in subsidiary undertakings

	\$'000
Net book value at 31 December 2022 and 31 December 2021	50,222

At 31 December 2022, the subsidiary undertakings which were all wholly owned were:

Direct Control

Name	Country of incorporation / operation	Nature of Business
NEO Energy Upstream UK Limited*	UK	Holding company
NEO Energy (North Sea) Limited**	UK	Holding company
NEO Energy Exploration UK Limited**	UK	****

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

Indirect Control

Name	Country of incorporation / operation	Nature of Business
NEO Energy (CNS) Limited *	UK	****
NEO Energy (Exploration) Limited *	UK	****
NEO Energy Oil & Gas Limited **	UK	Dormant company
NEO Energy (SNS) Limited *	UK	****
NEO Energy (Production) Limited **	UK	****
NEO Energy Enterprises Limited **	UK	****
NEO Energy Enterprises (North Sea) Limited **	UK	Dormant company
NEO Energy (UKCS) Limited **	UK	****
NEO E&P Holding Limited **, (dissolved in 2022)	UK	Holding company
NEO E&P Midco Limited **, (dissolved in 2022)	UK	Holding company
NEO E&P Limited **, (dissolved in 2022)	UK	Holding company
NEO Energy Production UK Limited **	UK	****
NEO Energy (ZNS) Limited **	UK	****
NEO Energy Pathway Limited **	UK	****
NEO Energy (ZNI) Limited ***	UK	****
NEO Energy (ZPL) Limited **	UK	****
NEO Energy (ZEX) Limited **	UK	****
NEO Energy (ZEL) Limited **	UK	****
NEO Energy (ZPL) Limited **	UK	****
NEO Energy Central North Sea Limited **	UK	****
NEO Energy (ZOG) Limited **	UK	****
NEO Energy Natural Resources Limited **	UK	****
NEO Energy Petroleum Limited **, (acquired in 2022)	UK	****

* Registered address - The Silver Fin Building (9th Floor), 455 Union Street, Aberdeen, AB11 6DB

** Registered address - 30 St. Mary Axe, London, EC3A 8BF

*** Registered address - Pinsent Masons LLP, The Soloist, 1 Lanyon Place, Belfast, Northern Ireland, BT1 3LP

**** The nature of business for all the companies above is Oil & Gas development & production

12 Business Combinations

The valuations presented below are based on currently available information on the fair values as at the acquisition dates. The fair value of assets is based on estimates of future cashflows which is dependent on the Group's current best estimate of proven, probable and risked possible reserves, along with future commodity price assumptions and an appropriate discount factor. If new information becomes available within 12 months from the acquisition date, the Group may change the fair value assessment in the Purchase Price Allocation, in accordance with IFRS 3 Business Combinations.

Acquisition of JX Nippon Exploration and Production (U.K.) Limited

On 26 November 2021, NEO Energy Upstream UK Limited, a wholly owned subsidiary of NEO Energy Group Ltd ("the Group"), entered into a Share Purchase Agreement ("SPA") for the purchase of JX Nippon Exploration & Production (U.K.) Limited ("JX") from JX Nippon Oil & Gas Exploration Corporation. JX was subsequently renamed NEO Energy Petroleum Limited.

On 28 March 2022, the Group completed the deal for a total consideration of \$1,138 million. JX's portfolio comprised a portfolio of non-operated interests primarily Mariner (20%) and Culzean (18%) together with small interests in Brae area, certain decommissioning liabilities and infrastructure assets.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

The fair value of the identifiable assets and liabilities of JX UK as at the date of acquisition, and resulting gain on bargain purchase, were as follows:

	Total \$'000
Property, plant and equipment	1,176,305
Deferred tax asset	1,170,024
Inventory	16,057
Trade and other receivables	219,109
Cash and cash equivalents	4,031
Trade and other payables	(84,785)
Lease liabilities	(350)
Provisions - current	(18,507)
Provisions – non-current	(376,368)
Decommissioning cash security	82,514
Fair value of identifiable net assets acquired	2,188,030
Cash consideration	(1,137,759)
Total consideration transferred	(1,137,759)
Gain on bargain purchase (note 6)	1,050,271
Cash consideration	(1,098,710)
Net cash acquired	4,031
Net consolidated cash outflow	(1,094,679)

The fair values of the oil and gas assets acquired had been determined using valuation techniques based on discounted cash flows, using forward curve commodity prices and estimates of long-term prices detailed below. This was consistent with those applied by management when testing assets for impairment, a discount rate based on market observable data and cost and production profiles consistent with the proven, probable and risked possible reserves acquired with each asset. The fair values were classified as level 3 fair values in the fair value hierarchy, due to the inclusion of unobservable inputs.

The key assumptions used in determining the fair value of assets and liabilities were:

- Oil price of \$99 per barrel in 2022, \$91 in 2023 and thereafter \$70 (real) inflated by 2% per annum
- Gas price of 175 pence per therm 2022, 125 pence per therm in 2023 and thereafter 60 pence per therm (real) inflated by 2% per annum
- An annual discount rate of 8.5%
- Assumed inflation of 2% per annum
- An exchange rate of \$1.30 / £

The deferred tax asset recognised on acquisition represented the value of acquired tax losses offset by deferred tax balances arising as a result of the difference between the tax base of assets and liabilities acquired and their associated carrying amounts. The deferred tax asset had been determined as recoverable based on management's assessment of the future estimated cash flows resulting from the assets acquired and NEO's existing UKCS portfolio.

The decommissioning provisions recognised had been estimated based on the Group's internal estimates with reference to observable market data, including rig rates.

The gross contractual amounts of the receivables is materially consistent with the fair value.

The gain on bargain purchase had arisen primarily due to the undiscounted nature of the deferred tax losses, the favourable movement in oil and gas prices between the date of entering into the transaction in November 2021 and the completion date and the outperformance of the assets during the interim period. This had been recognised immediately in the consolidated income statement.

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Notes to the financial statements for the year ended 31 December 2022

From the date of acquisition to 31 December 2022, JX contributed \$1,064.8 million to Group revenue and increased the Group's profit before tax by \$665.9 million. If the acquisition of JX had taken place at the beginning of the year, JX's contribution to Group revenue for the year ended 31 December 2022 would have been \$1,461.2 million and would have increased the Group's profit before tax by \$958.8 million.

Acquisition related costs of \$3.5 million were incurred by the Group and recognised as an expense within other expenses.

The gain on bargain purchase is not subject to corporation tax.

Acquisition of Zennor

On 8 March 2021, NEO Energy Upstream UK Limited, a wholly owned subsidiary of the Group, entered into a Sale and Purchase Agreement for the purchase of Zennor from Plutus Energy Investments Holdings Ltd, an entity owned by Kerogen Capital, an independent private equity fund manager.

The transaction completed on 12 July 2021 and added interests in several producing assets together with a portfolio of exploration and pre-development assets. In particular, the portfolio included assets concentrated in two strategic production hubs, Britannia and ETAP which included both currently producing assets as well as numerous infield and satellite development opportunities.

The fair value of the identifiable assets and liabilities of Zennor as at the date of acquisition, and resulting gain on bargain purchase were as follows:

	Total \$'000
Property, plant and equipment	549,605
Deferred tax asset	288,069
Inventory	1,358
Trade and other receivables	5,128
Cash and cash equivalents	12,025
Trade and other payables	(15,350)
Lease liabilities	(957)
Provisions - current	(1,737)
Derivative liabilities	(8,972)
Loans and borrowings – non-current	(256,207)
Deferred tax liabilities	-
Provisions – non-current	(126,985)
Fair value of identifiable net assets acquired	445,977
Cash consideration	(300,656)
Contingent consideration	(76,000)
Other consideration	(5,000)
Total consideration transferred	(381,656)
Gain on bargain purchase (note 6)	64,321
Cash consideration	(300,656)
Net cash acquired	12,025
Net consolidated cash outflow	(288,631)

The fair values of the oil and gas assets and intangible assets acquired had been determined using valuation techniques based on discounted cash flows, using forward curve commodity prices and estimates of long-term prices detailed below. This was consistent with those applied by management when testing assets for impairment, a discount rate based on market observable data and cost and production profiles consistent with the proven, probable and risked possible reserves acquired with each asset. The fair values were classified as level 3 fair values in the fair value hierarchy, due to the inclusion of unobservable inputs.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

The key assumptions used in determining the fair value of assets and liabilities were:

- Oil price of \$74 per barrel in 2022, \$60 in 2023 and thereafter \$60 (real) inflated by 2% per annum
- Gas price of £0.93 per therm 2022, £0.40 in 2023 and thereafter 40p (real) inflated by 2% per annum
- An annual discount rate of 8%
- Assumed inflation of 2% per annum
- An exchange rate of \$1.35 / £

The deferred tax asset recognised on acquisition represented the value of acquired tax losses offset by deferred tax balances arising as a result of the difference between the tax base of assets and liabilities acquired and their associated carrying amounts. The deferred tax asset had been determined as recoverable based on management's assessment of the future estimated cash flows resulting from the assets acquired and NEO's existing UKCS portfolio.

The decommissioning provisions recognised had been estimated based on the Group's internal estimates with reference to observable market data, including rig rates.

The fair value of debt facilities had been determined based on the total fair value of cash paid immediately after completion to satisfy Zennor's historical debt arrangements.

The Group will settle amounts between \$nil and \$110.0 million from various contingent payment arrangement which comprise:

- An amount of \$60.0 million payable on achieving certain milestones associated with the completion of the Finlaggan development. This was paid in full on 4 January 2022.
- An amount of \$20.0 million payable on approval of the Leverett development by the OGA prior to 31 December 2025.
- Amounts up to \$30.0 million payable in relation to future production between 2022 and 2023, if oil and gas prices exceed certain minimum levels.

The consideration included contingent amounts of \$76.0 million which represented management's estimation of the fair value of contingent payments and comprised:

- The \$60.0 million payable in respect of the Finlaggan development.
- An amount of \$16.0 million payable in respect of the Leverett development, risked based on an 80% probability of pay-out.

The fair value of amount payable in respect of 2022 and 2023 production levels, as triggered by future oil and gas prices, was determined to have a fair value of \$nil at the date of completion, based on management's prevailing estimate of future oil and gas prices. Subsequent to the acquisition, the fair value of contingent hydrocarbon payments as at 31 December 2021, was determined to be \$30.0 million as a result of the increase in management estimate of future oil and gas prices. This resulted in a charge of \$30.0 million, which was recognised in fair value changes in contingent consideration in the income statement.

The gain on bargain purchase had arisen primarily due to the favourable movement in oil and gas prices between the date of entering into the transaction and the completion date. This had been recognised immediately in the consolidated income statement.

From the date of acquisition to 31 December 2021, Zennor contributed \$225.0 million to Group revenue and increased the Group's profit before tax by \$133.0 million. If the acquisition of Zennor had taken place at the beginning of the year, Zennor's contribution to Group revenue for the year ended 31 December 2021 would have been \$254.0 million and would have increased the Group's profit before tax by \$121.0 million.

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Notes to the financial statements for the year ended 31 December 2022

Acquisition related costs of \$3.7 million were incurred by the Group and recognised as an expense within other expenses.

The gain on bargain purchase is not subject to corporation tax.

Acquisition of ExxonMobil CNNS

On 23 February 2021, NEO Energy Upstream UK Limited, a wholly owned subsidiary of the Group, entered into a Put and Call Option Deed ("PCOA") over the entire issued share capital ExxonMobil CNNS Limited with Esso Exploration and Production UK Limited, a wholly owned subsidiary of ExxonMobil CNNS.

The transaction completed on 8 December 2021 and added various non-operated interests in four major production areas (Gannet area; Elgin-Franklin area; Shearwater area; Penguins areas). In addition, the ExxonMobil CNNS portfolio included a number of other non-operated producing assets and a number of infrastructure interests.

The fair value of the identifiable assets and liabilities of ExxonMobil CNNS as at the date of acquisition, and resulting gain on bargain purchase, were as follows:

	Total \$'000
Property, plant and equipment	3,115,411
Inventory	15,339
Trade and other receivables	19,552
Cash and cash equivalents	-
Trade and other payables	(156,188)
Deferred tax liabilities	(931,946)
Provisions – non-current	(744,647)
Fair value of identifiable net assets acquired	1,317,521
Cash consideration	(755,484)
Contingent consideration	(293,266)
Deferred consideration	(57,963)
Total consideration transferred	(1,106,713)
Gain on bargain purchase (note 6)	210,808
Cash consideration	(755,484)
Net cash acquired	-
Net consolidated cash outflow	(755,484)

The fair values of the oil and gas assets acquired had been determined using valuation techniques based on discounted cash flows using forward curve commodity prices and estimates of long-term prices detailed below. This was consistent with those applied by management when testing assets for impairment, a discount rate based on market observable data and cost and production profiles consistent with the proven, probable and risked possible reserves acquired with each asset. The fair values were classified as level 3 fair values in the fair value hierarchy, due to the inclusion of unobservable inputs.

The key assumptions used in determining the fair value of assets and liabilities were:

- Oil price of \$78 per barrel in 2022, \$73 in 2023 and thereafter \$70 (real) inflated by 2% per annum
- Gas price of £1.15 per therm 2022, £0.75 in 2023 and thereafter £0.50 (real) inflated by 2% per annum
- An annual discount rate of 8%
- Assumed inflation of 2% per annum
- An exchange rate of \$1.35 / £

The decommissioning provisions recognised had been estimated based on the Group's internal estimates with reference to observable market data, including rig rates.

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Notes to the financial statements for the year ended 31 December 2022

The consideration includes certain deferred and contingent consideration amounts which comprised:

- Deferred consideration of \$62.5 million payable on 31 December 2023.
- Contingent consideration of \$37.5 million which will be payable if the Penguins redevelopment completion date falls before 31 December 2023. The redevelopment completion is deemed to occur upon completion of the first oil cargo loading from the Penguins FPSO.
- Contingent hydrocarbon payments of up to \$275.0 million are payable on future production between 2022 and 2024, where oil and gas prices exceed certain minimum levels.

Management expects the Penguins redevelopment to complete before 31 December 2023 and has therefore provided for this amount in full within its calculation of consideration paid.

The contingent hydrocarbon payments had been modelled based on management's view of future production and the Groups prevailing oil and gas price assumptions. Based on this modelling, the contingent hydrocarbon payments will pay out in full and therefore this amount had also been provided for within the calculation of consideration paid.

The total fair value of the deferred consideration and contingent consideration had been determined as \$58.0 million and \$293.3 million respectively. This was based on the present value of future expected cashflows based on a discount rate of 3.84%, representing the Group's weighted average cost of debt.

The gain on bargain purchase had arisen primarily due to the favorable movement in oil and gas prices between the date of entering into the transaction and the completion date. This had been recognised immediately in the consolidated income statement.

From the date of acquisition to 31 December 2021, ExxonMobil CNNS contributed \$73.4 million to Group revenue and increased the Group's profit before tax by \$62.7 million. If the acquisition of ExxonMobil CNNS had taken place at the beginning of the year, the contribution to Group revenue for year ended 31 December 2021 would have been \$633.4 million and would have increased the Group's profit before tax by \$165.0 million.

Acquisition related costs of \$10.1 million were incurred by the Group and recognised as an expense within other expenses.

The gain on bargain purchase is not subject to corporation tax.

As part of the acquisition of ExxonMobil CNNS, the company executed separate sale and purchase agreements to acquire a 2.86085% interest in the Forties field. This comprised a 2.61085% interest acquired from Esso Exploration and Production UK Limited and a 0.25% interest from Shell U.K. Limited. Both transactions completed on 8 December 2021. The purchase of both Forties interests was linked to completion of the purchase of ExxonMobil CNNS Limited and accordingly the acquisitions had therefore been included within the accounting for the ExxonMobil CNNS transaction.

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Notes to the financial statements for the year ended 31 December 2022

13 Intangible assets

	2022	2021
Cost - goodwill	\$'000	\$'000
At 1 January	154,951	154,951
Accumulated amortisation and impairment	(7,399)	(7,399)
At 31 December	147,552	147,552

Goodwill

The recoverable amount of the CGU's was determined by fair value less cost of disposal calculations which measure the net present value at the reporting date of the anticipated cash flow projections from each individual asset which comprise the portfolio underpinning the CGU.

Impairment testing of Goodwill

In accordance with IAS 36 Impairment of Assets, the Group's goodwill balance has been reviewed for impairment at the year-end. In assessing whether goodwill has been impaired, the carrying amount of the CGU for goodwill was compared with its recoverable amount. No impairment charge was identified as a result of the impairment review.

The assumptions used were consistent with those utilised in the impairment testing of oil and gas assets (see note 14).

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Notes to the financial statements for the year ended 31 December 2022

14 Property, plant and equipment

Group	Development and production assets	Office equipment, furniture and fittings	Leasehold improvements	Right-of-use assets	Total
Cost	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2021	1,074,009	1,917	-	2,481	1,078,407
Acquisitions (note 12)	3,733,806	18	-	959	3,734,783
Additions	92,234	157	2,767	9,309	104,467
Exchange differences	(16,107)	-	-	(23)	(16,130)
Disposal	(14,054)	-	-	(717)	(14,771)
Change in decommissioning provision (note 19)	70,926	-	-	-	70,926
At 31 December 2021	4,940,814	2,092	2,767	12,009	4,957,682
Acquisitions (note 12)	1,179,838	-	-	-	1,179,838
Additions	389,911	7,025	6	-	396,942
Reclassification	-	(660)	660	-	-
Exchange differences	(86,527)	(114)	-	(127)	(86,768)
Write offs	(55)	(1,406)	(186)	(39)	(1,687)
Change in decommissioning provision (note 19)	(268,496)	-	-	-	(268,496)
At 31 December 2022	6,155,485	6,937	3,247	11,843	6,177,512
Accumulated depletion, depreciation and amortisation					
At 1 January 2021	(250,014)	(384)	-	(659)	(251,057)
Charge for the year (note 6)	(216,678)	(1,913)	(49)	(732)	(219,372)
Reclassification	-	234	(234)	-	-
Exchange differences	-	-	-	4	4
Disposal	6,620	-	-	80	6,700
At 31 December 2021	(460,072)	(2,063)	(283)	(1,307)	(463,725)
Charge for the year (note 6)	(701,878)	(342)	(270)	(1,428)	(703,918)
Reclassification	-	299	(299)	-	-
Exchange differences	16,718	115	-	27	16,860
Impairment	(77,300)	-	-	-	(77,300)
Write offs	-	1,406	-	-	1,406
At 31 December 2022	(1,222,532)	(585)	(852)	(2,708)	(1,226,677)
Net book value					
At 31 December 2021	4,480,742	29	2,484	10,702	4,493,957
At 31 December 2022	4,932,953	6,352	2,395	9,135	4,950,835

During the year ended 31 December 2021, the Group executed an exchange agreement ("swap") with Repsol Sinopec to acquire a 33.3% share in the Affleck licence in exchange for a Group's entire 65.9% interest in Flyndre. The commercial rationale for the deal was to unlock the Affleck development in return for a late life asset which was not material relative to the Group's portfolio and had a better strategic fit for Repsol. This has resulted in a \$69.8 million fair value adjustment to property, plant and equipment with a corresponding gain on acquisition of \$56.1 million which is included in the income statement in gain on bargain purchase.

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Notes to the financial statements for the year ended 31 December 2022

Exploration and evaluation expenditure of \$16.6 million (2021: \$12.5 million) has been included within Property, plant and equipment.

Impairment testing

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

The recoverable amounts of the CGUs have been determined on a fair value less costs of disposal basis. Discounted cash flow models comprising asset-by-asset life of field cash flow projections are used for development and producing assets, applying generally accepted market assumptions to determine the recoverable amounts. The fair values were classified as level 3 fair values in the fair value hierarchy, due to the inclusion of unobservable inputs.

During 2022 the Group recorded an impairment charge of \$77.3 million in respect of the Western Isles field. This was driven primarily by a decrease in the commercial reserves associated with the asset, following a reduction to the expected life of the field. The revised field life assumption was based on reservoir performance and the outcome of well results during the period.

Key assumptions used in calculations

The key assumptions required for the calculation of the recoverable amounts are:

- Oil and gas prices
- Oil & gas reserves and production volumes
- Currency exchange rates
- Discount rates, and
- Opex and capex costs

The key assumptions used in year end impairment testing are \$84 (2021: \$78) per barrel of oil in 2023, \$79 in 2024, and thereafter inflated by 2% per annum, £2.01 (2021: £1.15) per therm of gas in 2023, £1.97 per therm of gas in 2024 (2021: £0.75), £1.00 per therm of gas in 2025 and thereafter inflated by 2%, 8.5% (2021: 8%) discount rate and 2% (2021: 2%) inflation rate.

Sensitivity to changes in assumptions

The Group's recoverable value of assets is highly sensitive to actual oil and gas prices achieved and the discount rates applied. If the oil and gas prices were to fall by 10% compared with the base assumptions, this would result in an additional \$19.3 million (2021: \$26.7 million) impairment in oil and gas asset carrying values and \$nil (2021: \$19.6 million) impairment to goodwill. A 1% increase in the discount rate would result in a \$1.2 million increase to impairment in oil and gas carrying values but no impairment of goodwill (2021: \$nil).

The table below shows how the impairment or reversal of impairment of assets and goodwill would be affected by changes in the various assumptions.

Assumption	Change	Increase / (decrease) in impairment after	
		Increase in assumption \$'000	Decrease in assumption \$'000
Oil and gas prices	+/-10%	(5,634)	19,297
Discount rate	+/-1%	1,166	(1,634)

The sensitivities are created for illustrative purposes, based on a simplified method and assumes no changes in other input factors. Significant reductions in commodity prices are likely to result in changes in business plans, as well as other factors used when estimating an asset's recoverable amount. Therefore, changes in such input factors

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Notes to the financial statements for the year ended 31 December 2022

would likely significantly reduce the actual impairment amount compared to the illustrative sensitivities outlined above.

Right-of-use assets

In addition to the right-of-use assets, the balance sheet also includes the following amounts relating to the leased buildings:

Lease liabilities

	2022 \$'000	2021 \$'000
Current (note 17)	1,487	1,071
Non-current	7,721	10,365
	9,208	11,436

Interest expense was \$0.5 million (2021: \$0.3 million). The total cash outflow for leases in 2022 was \$1.4 million (2021: \$0.4 million).

15 Trade and other receivables

	Group 2022 \$'000	Group 2021 \$'000	Company 2022 \$'000	Company 2021 \$'000
		Restated*		
Current	\$'000	\$'000	\$'000	\$'000
Trade receivables	45,992	4,490	-	-
Prepayments	43,115	16,527	-	-
Accrued income	286,505	253,179	-	-
Amounts due from subsidiary undertakings	-	-	7,882	327,785
VAT receivable	3,246	2,164	-	-
Underlift	94,735	121,891	-	-
Other receivables	23,051	39,049	-	-
	496,644	437,300	7,882	327,785

*The comparatives have been restated as current derivatives were included within trade and other receivables and are presented separately within the Statement of Financial Position.

Group

The directors consider that the carrying amount of trade and other receivables approximates to their fair value due to their short-term nature. Trade receivables are not overdue as the payment terms established with the Group's customers have not been exceeded.

Company

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

The Group's and Company's credit risk considerations required under IFRS 9 Financial Instruments, including expected credit loss, are disclosed in note 22.

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Notes to the financial statements for the year ended 31 December 2022

16 Cash and cash equivalents

	Group 2022 \$ 000	Group 2021 \$ 000	Company 2022 \$ 000	Company 2021 \$ 000
Cash at bank	82,787	285,193	4,041	170,409
Cash on short-term deposit	426,000	-	-	-
Restricted cash	6,075	6,835	-	-
	514,862	292,028	4,041	170,409

The cash and cash equivalents disclosed above and in the statement of cash flows include restricted cash which are held by NEO.

Restricted cash of \$6.1 million at 31 December 2022 (2021: \$6.8 million) represents the US dollar equivalent of £5.1 million (2021: £5.0 million) cash held in escrow (to the Law Debenture Society), in relation to the security requirements on the Victoria field at acquisition and will be released on satisfaction of the decommissioning liabilities.

17 Trade and other payables

	Group 2022 \$ 000	Group 2021 \$ 000 Restated*	Company 2022 \$ 000	Company 2021 \$ 000
Trade payables	212,290	117,611	-	246
Amounts due to subsidiary undertakings	-	-	693	2,935
Amounts due to ultimate parent undertaking	-	39,059	-	-
Other tax and social security costs	1,649	1,593	-	-
Accruals and deferred income	261,169	210,845	-	-
Overlift	50,258	63,830	-	-
Contingent consideration	322,338	95,467	-	-
	847,704	528,405	693	3,181

* The comparatives have been restated as current derivatives were included within trade and other payables and are presented separately within the Statement of Financial Position.

Revenue recognised for the year ended 31 December 2022 that were included in deferred income balance was \$nil (31 December 2021: \$nil)

Trade payables predominantly comprise amounts outstanding for trade purchases of the Group by the joint operations; namely oil and gas exploration and development expenditure and ongoing administrative costs.

Contingent consideration comprises amounts relating to TotalEnergies acquisition for \$35.0 million (2021: \$35.0 million), Zennor acquisition for \$46.0 million (2021: \$60.0 million) and ExxonMobil CNNS acquisition \$241.0 million. The non-current portion is detailed in note 20. Payments made in the year in respect of the contingent consideration balance amounted to \$95.5 million.

On 26 November 2021, NEO Energy Holding Limited, paid a deposit for the acquisition of JX Nippon Exploration & Production (U.K.) Limited, on behalf of NEO Energy Upstream UK Limited, of \$39.0 million. This was settled during the current financial year.

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Notes to the financial statements for the year ended 31 December 2022

The Group has financial risk management policies in place to ensure that all payables are paid within the credit term. The directors consider that the carrying amount of trade payables approximates to their fair value due to their short term nature.

18 Loans and other borrowings

	2022	2021
	\$'000	\$'000
Current bank loan	-	-
Non-current bank loan	2,249,320	1,403,000
Total outstanding loan amount	2,249,320	1,403,000
Loan fees	(27,245)	(35,553)
Total loans and borrowings	2,222,075	1,367,447

	2022	2021
	\$'000	\$'000
Maturity of financial liabilities		
In one year or less, or on demand	-	-
In more than one year, but not more than two years	-	-
In more than two years, but not more than five years	2,222,075	1,367,447
Total	2,222,075	1,367,447

The Group's primary source of debt financing as at 31 December 2022 was through a Reserve Based Lending (RBL) facility of up to \$3,500 million with a syndicate of banks which was updated as at 31 March 2022. Under the RBL agreement the 'borrowing base' amount is determined by valuation of the Group's cash flows from the Western Isles, Alba, Babbage, Scott, Telford, Boa, Gannet, Shearwater, Fram, Starling, Elgin-Franklin, Penguins, Nelson, Forties, Finlaggan, Mungo & Monan, Bacchus, Britannia, ETAP, Golden Eagle, Brae Area, Culzean and Mariner fields.

As at 31 December 2022, the lenders had a floating charge over all the assets of the Group and its principal operating subsidiaries and a charge over the shares in NEO Energy Upstream UK Limited, NEO Energy (CNS) Limited, NEO Energy (Exploration) Limited, NEO Energy (SNS) Limited, NEO Energy (Production) Limited, NEO Energy Enterprises Limited, NEO Energy (UKCS) Limited, NEO Energy Exploration UK Limited, NEO Energy Production UK Limited, NEO Energy (ZPL) Limited, NEO Energy Central North Sea Limited, NEO Energy Pathway Limited, NEO Energy (ZEL) Limited, NEO Energy (ZNI) Limited, NEO Energy Natural Resources Limited and NEO Energy Petroleum Limited.

The loan as at 31 December 2022 attracts interest at compounded SOFR for each interest rate period (1, 3 or 6 months) plus a stepped margin rate which increases at set anniversaries: Initial agreement date of 21 March 2022 to 2nd anniversary (3.5% per annum), 2nd anniversary to 4th anniversary (3.75% per annum), 4th anniversary to maturity date (4% per annum). For the year ended 31 December 2022 the loan attracted a margin of 3.5%. The directors consider that the carrying amount of loan approximates to their fair value as at 31 December 2022.

The maximum facility amount amortises on a six-monthly basis starting on 1 April 2025, to final maturity on 31 March 2028. The maximum outstanding loan amounts are also subject to a borrowing base calculated by reference to estimated future cash flows from the assets which are re-calculated at semi-annual redeterminations, which may result in the group making facility repayments. As at 31 December 2022, the maximum available amount was \$2,245 million, plus certain additional availability for letters of credit. The RBL includes a financial covenant to maintain net debt/EBITDAX cover ratio below 3.5x. The financial covenant is tested on a biannual basis. As at 31 December 2022, the group is fully compliant with the financial covenant.

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Notes to the financial statements for the year ended 31 December 2022

19 Provisions

Group	Decommissioning provisions		Dilapidation provisions		Total provisions	
	2022	2021	2022	2021	2022	2021
		Restated*				Restated*
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January	1,523,061	568,072	607	-	1,523,668	568,072
Acquisitions (note 12)	394,875	887,069	-	-	394,875	887,069
Addition	-	-	228	607	228	607
Disposal	-	(17,802)	-	-	-	(17,802)
Utilisation of provision	(25,195)	(4,836)	-	-	(25,195)	(4,836)
Movement in provision (note 14)	(268,496)	70,926	-	-	(268,496)	70,926
Unwinding of discount on decommissioning provision (note 9)	45,799	19,632	-	-	45,799	19,632
Total provisions at 31 December	1,670,044	1,523,061	835	607	1,670,879	1,523,668
Reclassified to current liability	(110,510)	(43,586)	-	-	(110,510)	(43,586)
Long term provisions at 31 December	1,559,534	1,479,475	835	607	1,560,369	1,480,082

*The comparative 2021 provisions balance has been represented to agree to the balance sheet.

Decommissioning costs are expected to be incurred between 2023 and 2054. The provision has been based upon existing technology, current legislation requirements and discounted using a rate of 3.5% (2021: 2.5%). The estimated decommissioning costs and the pre-tax discount rate applied take into account the effects of inflation and the risks and uncertainties concerning amounts to be settled in the future.

As at 31 December 2022 the Group had posted decommissioning securities in respect of future abandonment liabilities of \$724.1 million (2021: \$605.5 million), comprising \$278.0 million (2021: \$321.6 million) of letters of credit and \$446.1 million (2021: \$283.9 million) of surety bonds.

As part of the acquisition of certain assets, associated decommissioning liabilities have been retained by the vendor in full or to an amount specified in the relevant sale and purchase agreement.

On the basis that all other assumptions in the calculation remain the same, a 1% reduction in the discount rate would result in an increase in the decommissioning liability of \$222.9 million (2021: \$198.0 million). The change would be principally offset by a change to the value of the associated asset unless the asset is fully depreciated, in which case the change in estimate is recognised directly within the income statement.

The disposal from last year relates to the derecognition of the decommissioning liability of the Flyndre asset following the sale to Repsol Sinopec.

Dilapidation provisions relate to the leased buildings of the Group.

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Notes to the financial statements for the year ended 31 December 2022

<i>Provisions – Company</i>	Decommissioning provision	
	2022	2021
		Restated*
	\$'000	\$'000
At 1 January	6,324	6,906
Movement in provision	(6,324)	(789)
Unwinding of discount on decommissioning provision (note 9)	-	207
Total provisions at 31 December	-	6,324
Reclassified to current liability	-	(5,033)
Long term provisions at 31 December	-	1,291

*The comparative 2021 provisions balance has been represented to agree to the balance sheet.

The Company had a contingent funding obligation to NEO Energy Exploration UK Limited to fund the Athena decommissioning programme. The Company acquired this obligation as part of the original acquisition of that subsidiary. Following the transfer of assets into NEO Energy Exploration UK Limited, the Company is no longer expected to fund the decommissioning programme for Athena.

20 Other non-current liabilities

<i>Group</i>	2022	2021
	\$'000	\$'000
Onerous contract	2,996	3,846
Contingent consideration	114,115	374,266
Deferred consideration (note 12)	63	57,963
	117,174	436,075

Contingent consideration relates to Zennor and ExxonMobil CNNS acquisitions of \$114.1 million (2021: \$309.3 million). In addition 2021 comprised TotalEnergies acquisition of \$35.0 million and contingent hydrocarbon payment for Zennor of \$30.0 million. These are included in the current liabilities as at 31 December 2022.

Deferred consideration relates to the ExxonMobil CNNS acquisition. See note 12.

These liabilities are discounted at a rate of 7.56% (2021: 3.84%) representing the company's weighted average cost of debt.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

21 Financial risk management

Derivative financial instruments are initially recognised and subsequently re-measured at fair value. They have been classified in accordance with the hierarchy described in IFRS 13 'Fair value measurement'. The Group's derivative financial assets and liabilities are level 2 financial instruments.

The Group held the following financial instruments at fair value as 31 December 2022.

Current derivative assets and liabilities

	2022		2021	
	Assets	Liabilities	Assets	Liabilities
	\$'000	\$'000	\$'000	\$'000
Measured at fair value through profit and loss				
Commodity derivatives	-	-	-	-
Foreign exchange derivatives	-	-	2,464	-
	-	-	2,464	-
Measured at fair value through other comprehensive income				
Commodity derivatives - cash flow hedges	385,632	17,186	93,752	229,476
Foreign exchange derivatives - cash flow hedges	1,100	42,200	-	6,650
	386,732	59,386	93,752	236,126
Total	386,732	59,386	96,216	236,126

Non-current derivative assets and liabilities

	2022		2021	
	Assets	Liabilities	Assets	Liabilities
	\$'000	\$'000	\$'000	\$'000
Measured at fair value through profit and loss				
Commodity derivatives	-	-	-	-
Foreign exchange derivatives	-	-	-	-
Interest rate derivatives	-	-	-	-
	-	-	-	-
Measured at fair value through other comprehensive income				
Commodity derivatives – cash flow hedges	-	-	3,953	9,968
Foreign exchange derivatives – cash flow hedges	-	-	-	6,964
Interest rate derivatives – Cash flow hedges	45,900	-	-	-
	45,900	-	3,953	16,932
Total	45,900	-	3,953	16,932

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

The following amounts were recognised in profit and loss, and other comprehensive income in relation to derivatives:

	2022 \$'000	2021 \$'000
Realised hedging gains/(losses) through revenue	37,707	(113,248)
Net realised (loss)/gain through finance costs	(33,543)	9,179
Premiums paid through finance costs	(67,027)	(26,240)
	(62,863)	(130,309)
Unrealised gains/(losses) through other comprehensive income	569,655	(216,113)
	506,792	(346,422)

Recognised fair value measurements

Derivative financial instruments are initially recognised and subsequently re-measured at fair value. They have been classified in accordance with the hierarchy described in IFRS 13 'Fair value measurement'.

The fair value hierarchy described below reflects the significance of the inputs used to determine the valuation of assets and liabilities measured at fair value.

Specific valuation techniques used to value financial instruments include the use of dealer quotes for similar instruments.

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are level 1.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument is observable, the instrument is level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is level 3.

There were no transfers between levels 1, 2 or 3 for recurring fair value measurements during the year.

Cash flow hedge accounting

The Group uses a combination of fixed price physical sales contracts and cash settled fixed price commodity swaps, puts and collars to manage the price risk associated with underlying oil and gas revenues. Effective from 1 January 2021, all commodity contracts entered into have been designated as cash flow hedges of highly probable forecast sales of oil and gas.

The Group's hedging reserves disclosed in the balance sheet relate to the following instruments

	Cash Flow Hedge Reserve	
	2022 \$'000	2021 \$'000
Commodity options / swaps - oil	13,826	(11,738)
Commodity options / swaps - gas	334,916	(190,762)
Forward foreign exchange contracts	(41,100)	(13,613)
Interest Rate Swaps	45,900	-
At 31 December (pre-tax)	353,542	(216,113)
Less: deferred tax	(222,731)	89,655
At 31 December (post tax)	130,811	(126,458)

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

The below table indicates the volumes, average hedged price and timings associated with the Group's financial commodity derivatives.

Position as at 31 December 2022	2023
Oil volume hedged (thousand bbls)	6,797
Weighted average hedged price (\$/bbl)	66.73
Gas volume hedged (million therms)	320.1
Weighted average hedged price (p/therm)	244
Weighted average floor (p/therm)	288
Weighted average ceiling (p/therm)	587

Hedge effectiveness is determined at the inception of the hedge relationship and through prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and the hedging instruments. At 31 December 2022, included within Finance costs is a charge of \$7.9m (2021: \$nil) relating to ineffective hedging.

The fair value of net financial commodity derivatives designated as cash flow hedges was \$373.2 million (2021: \$152.9 million liability) and net unrealised pre-tax gains of \$569.7 million (2021: \$216.1 million losses) was deferred in other comprehensive income in respect of the effective portion of the hedge relationships. Amounts deferred in other comprehensive income will be released to the income statement as the underlying hedged transactions occur. As at 31 December 2022, net deferred pre-tax gains of \$327.3 million (2021: \$142.4 million losses) are expected to be released to the income statement within one year.

22 Financial risk factors and risk management

Market risk

Market risk primarily comprises: i) commodity price risk ii) foreign exchange risk and iii) interest rate risk.

i) Commodity price risk

Commodity price risk arises in respect of the Group's production. To reduce the risk of oil and gas fluctuations, the Group actively hedges oil and gas prices for a portion of its future estimated production.

During the year \$37.7 million of net realised hedge gains (2021: \$113.2 million losses) were recognised within revenue in the income statement. The change in the fair value of commodity price derivatives not designated for hedge accounting recognised within finance costs in the year was \$nil (2021: \$17.1 million gain).

The impact on the post-tax profit for the year of a 10% movement in oil and gas prices would be an increase or decrease to gross revenues \$361.3 million (2021: \$98.8 million).

ii) Foreign exchange risk

The Group is exposed to foreign currency risk primarily arising from exchange rate movements in US Dollar against Pound Sterling. To mitigate exposure to movements in exchange rates, wherever possible financial assets and liabilities are held in currencies that match the functional currency of the relevant entity. The Group has subsidiaries with functional currencies of Pound Sterling and US Dollar. Exposures can also arise from sales or purchases denominated in currencies other than the functional currency of the relevant entity; such exposures are monitored and hedged with agreement from the Board.

The Group enters into forward contracts as a means of hedging its exposure to foreign exchange rate risks. As at 31 December 2022, the Group had £10.0 million hedged at a forward rate of \$1.3379/£1 for the period to June 2023, £32.0 million hedged at a forward rate of \$1.35/£1 for the period to June 2023, £96.0 million hedged using a Collar with floor price of \$1.35/£1 and ceiling of \$1.45/£1 for the period to June 2023, and £77.1m hedged using a forward rate of \$1.1561/£1 for the period to December 2023

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Notes to the financial statements for the year ended 31 December 2022

iii) Interest rate risk

The Group's interest rate risk arises from long-term borrowings issued at variable rates (see note 18) and exposing the Group to interest rate risk. As at 31 December 2022, the Group had an interest rate hedge in place for circa 47% (2021: nil) of the outstanding borrowing (RBL) exposure. Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates. The impact on the post-tax profit for the year of a 1% movement in interest rates would be an increase or decrease of \$19.1 million (2021: \$1.1 million).

Credit risk

i) Risk management

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, as well as credit exposures to customers and co-venturers, including outstanding receivables and committed transactions. Credit risk is considered by the Board and senior management prior to entering into significant transactions with appropriate measures put in place as considered appropriate and monitored on an ongoing basis. None of the receivable balances are past their due date. The credit ratings for associated financial institutions range from A+ to AA-. The Group assesses the credit risk associated with petroleum sales customers as part of its sales and marketing process and only contracts where a counterparty demonstrates a sufficient level of financial strength. The Groups customers are typically major integrated oil and gas companies.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

ii) Impairment of financial assets

The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are joint venture partners and there are no indications of change in risk.

The expected credit loss on the Group trade debtors and contract assets balance is immaterial and therefore no adjustment has been applied.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, any impairments are immaterial.

Impairment of financial assets – Company

The Company evaluates the concentration of risk with respect to intercompany receivables as low. Its customers are intercompany ventures and has considered the risk relating to the probability of default on loans that are repayable on demand. At 31 December 2022, the Company had intercompany receivable balances due from NEO Energy Upstream UK Limited (\$7.9 million before applying the credit loss). In line with the requirements of IFRS 9, 'Financial Instruments' management calculated an expected credit loss of \$0.6 million, which is carried in the 2022 financial statements of the Company. This is based on an assessment of the probability of default, exposure at default, loss given default and consideration of macroeconomic conditions.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

Financial assets by category

<i>Group</i>	Amortised value \$'000	Fair value through profit and loss \$'000	Fair value through OCI \$'000	Total \$'000
At 31 December 2022				
Assets as per balance sheet				
Trade and other receivables (excl. prepayments) (note 15)	453,529	-	-	453,529
Cash and cash equivalents (note 16)	514,862	-	-	514,862
Derivative financial instruments (note 21)	-	-	432,632	432,632
Total	968,391	-	432,632	1,401,023

	Less than 3 months \$'000	3 to 12 months \$'000	Non-current \$'000	Total \$'000
At 31 December 2022				
Trade and other receivables (excl. prepayments) (note 15)	453,529	-	-	453,529
Cash and cash equivalents (note 16)	514,862	-	-	514,862
Derivative financial instruments (note 21)	98,172	288,560	45,900	432,632

<i>Group</i>	Amortised value \$'000	Fair value through profit and loss \$'000	Fair value through OCI \$'000	Total \$'000
At 31 December 2021				
Assets as per balance sheet				
Trade and other receivables (excl. prepayments) (note 15)	420,773	-	-	420,773
Cash and cash equivalents (note 16)	292,028	-	-	292,028
Derivative financial instruments (note 21)*	-	2,464	97,705	100,169
Total	712,801	2,464	97,705	812,970

	Less than 3 months \$'000	3 to 12 months \$'000	Non-current \$'000	Total \$'000
At 31 December 2021				
Trade and other receivables (excl. prepayments) (note 15)	420,773	-	-	420,773
Cash and cash equivalents (note 16)	292,028	-	-	292,028
Derivative financial instruments (note 21)	57,953	38,263	3,953	100,169

*The comparative 2021 results have been represented to disclose the current derivative assets and liabilities separately.

iii) Liquidity risk

Liquidity risk relates to the need to maintain sufficient cash and cash equivalents and borrowing facilities for the Group to continue to meet its cash and funding requirements as they fall due. The Group closely monitors its funding requirements in conjunction with its ultimate parent controlling undertaking, HitecVision VI, LP, HitecVision VII, LP and HitecVision North Sea Opportunity Fund, LP. Securing appropriate funding is a key element of project appraisal.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

Financial liabilities by category

The tables below analyses the Group's financial liabilities into relevant maturity groupings based on their contractual maturities; namely all non-derivative financial liabilities and net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

<i>Group</i>	Financial liabilities at amortised cost	Fair value through profit and loss	Fair value through OCI	Total
At 31 December 2022	\$'000	\$'000	\$'000	\$'000
Liabilities as per balance sheet				
Trade and other payables (excl. accruals) (note 17)	586,535	-	-	586,535
Bank loan (note 18)	2,222,075	-	-	2,222,075
Lease liabilities (note 14)	9,208	-	-	9,208
Derivative financial instruments (note 21)	-	-	59,386	59,386
Total	2,817,818	-	59,386	2,877,204

	Less than 3 months	3 to 12 months	1 to 2 years	2 to 10 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Liabilities as per balance sheet					
Trade and other payables (excl. accruals) (note 17)	586,535	-	-	-	586,535
Derivative financial instruments (note 21)	17,281	42,105	-	-	59,386
Lease liabilities (note 14)	366	1,124	2,744	4,974	9,208
Bank loan (note 18)	-	-	-	2,222,075	2,222,075

<i>Group</i>	Financial liabilities at amortised cost	Fair value through profit and loss	Fair value through OCI	Total
At 31 December 2021	\$'000	\$'000	\$'000	\$'000
Liabilities as per balance sheet				
Trade and other payables (excl. accruals) (note 17)*	317,560	-	-	317,560
Bank loan (note 18)	1,367,447	-	-	1,367,447
Lease liabilities (note 14)	11,436	-	-	11,436
Derivative financial instruments (note 21)	-	-	236,126	236,126
Total	1,696,443	-	236,126	1,932,569

	Less than 3 months	3 to 12 months	1 to 2 years	2 to 10 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Liabilities as per balance sheet					
Trade and other payables (excl. accruals) (note 17)*	317,560	-	-	-	317,560
Derivative financial instruments (note 21)	128,613	107,513	-	-	236,126
Lease liabilities (note 14)	211	635	1,721	8,869	11,436
Bank loan (note 18)	-	-	-	1,367,447	1,367,447

* The comparative 2021 results have been represented to disclose the current derivative assets and liabilities separately.

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Notes to the financial statements for the year ended 31 December 2022

The financial assets and liabilities of the Group and Company are denominated in United States dollars and GBP.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balances. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with other peers in the industry, the Group monitors capital on the basis of the gearing ratio. The gearing ratio represents net debt divided by capital and net debt. Net debt is total borrowings less cash and cash equivalents. Total capital is "total equity shareholders' funds" as shown in the Statement of Financial Position plus net debt. The inputs for the gearing ratio are as follows:

	Group 2022 \$'000	Group 2021 \$'000
Total borrowings (note 18)	2,249,320	1,403,000
Less: cash and short-term deposits	(514,862)	(292,028)
Net loan debt	1,734,458	1,110,972
Equity	204,333	909,906
Capital and net loan debt	1,938,791	2,020,878
Gearing ratio	89%	55%

Loan covenants

Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants:

- Net debt/EBITDAX cover ratio below 3.5x. The financial covenant is tested on a biannual basis.

23 Share capital

Group and Company

Number	2022	2021
Authorised, allotted, called up and fully paid		
Common shares of £0.000298 each	67,010,634	67,010,634
Preference shares of £0.000031 each	737,721,622	737,721,622
Total	804,732,256	804,732,256

Value	2022 \$'000	2021 \$'000
Authorised, allotted, called up and fully paid		
Common shares of £0.000298 each	30	30
Preference shares of £0.000031 each	36	36
Total	66	66

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Notes to the financial statements for the year ended 31 December 2022

During 2021, 12,784,987 common shares and 249,690,799 preference shares were allotted as part of equity injection by NEO Energy Holding Limited, for a total consideration of \$277.4 million. Amount disclosed for issue of share capital in the Consolidated statement of cash flow is the net amount of share capital issued of \$277.4 million and the novated loan repayment to ultimate parent by the Group of \$191.2m. Common shares were issued at \$2.17 per share and preference shares were issued at \$1.00 per share.

A summary of share movement is shown below:

Number	Common shares	Preference shares
At 31 December 2022 and 31 December 2021	67,010,634	737,721,622

Both common and preference carry voting rights in the Company. In addition, the preference shares are entitled to a dividend of 8% per year which is payable if and when declared by a shareholders' meeting. Both common and preference shares are redeemable by the Group by resolution of the Shareholders.

24 Share premium

Group and Company	\$'000
At 1 January 2021	270,503
Premium on issue of shares (note 23)	277,417
At 31 December 2021	547,920
Capital reduction (note 27)	(547,920)
At 31 December 2022	-

25 Capital reorganisation

	Group \$'000	Company \$'000
At 31 December 2022 and 31 December 2021	(40,024)	1,028

During 2015 and 2016 the Company repurchased a number of shares and also passed a resolution to reduce share premium to allow the company to buy the shares, resulting in the balance on the capital reorganisation account.

26 Currency translation reserve

	Group \$'000	Company \$'000
At 1 January 2021	(906)	(18,839)
Movement in the year	(17,981)	-
At 31 December 2021	(18,887)	(18,839)
Movement in the year	(72,836)	-
At 31 December 2022	(91,723)	(18,839)

Following the acquisition of Zennor, the Group consolidates three GBP denominated subsidiaries in its USD denominated Group results. During the year the functional currency of NEO Energy (ZEX) was changed from GBP to USD.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

27 Retained earnings

	Group \$'000	Company \$'000
At 1 January 2021	91,382	9,444
Profit / (loss) for the financial year	455,907	(708)
At 31 December 2021	547,289	8,736
Profit for the financial year	940,160	1,352,707
Capital reduction	547,920	547,920
Dividends paid	(1,830,166)	(1,830,166)
At 31 December 2022	205,203	79,197

Capital and share premium reduction and dividends

On 11 April 2022, by way of a special resolution under Chapter 2 of Part 13 of the Companies Act 2006, and a solvency statement made by the Directors of the Company, the Company's share premium account was reduced by \$547,920 to \$nil, pursuant to section 641 of the Act.

On 21 April 2022, the Board approved a \$500.0 million dividend payment from the Company to its sole shareholder NEO Energy Holding Limited. This equates to \$0.69 per share for preference shares issued on 22 July 2020 and 28 July 2020, and \$0.65 per share for preference shares issued on 12 July 2021.

On 21 June 2022, the Board approved a \$330.2 million dividend payment from the Company to its sole shareholder NEO Energy Holding Limited. This equates to \$0.46 per share for preference shares issued on 22 July 2020 and 28 July 2020, \$0.42 per share for preference shares issued on 12 July 2021, and \$0.42 per share for common shares.

On 14 October 2022, the Board approved a \$500.0 million dividend payment from the Company to its sole shareholder NEO Energy Holding Limited. This equates to \$7.46 per share.

On 15 November 2022, the Board approved a \$500.0 million dividend payment from the Company to its sole shareholder NEO Energy Holding Limited. This equates to \$7.46 per share.

28 (a) Cash generated from operations

	Note	2022 \$'000	2021 Restated* \$'000
Operating profit		3,210,291	626,346
Adjustments to reconcile loss to net cash from operating activities:			
Depletion, depreciation and amortisation	14	703,918	219,372
Impairment expense	14	77,300	-
Gain on disposal	6	(949)	(7,367)
Gain on bargain purchase	6	(1,050,271)	(331,193)
Fair value changes in contingent consideration	6	(9,199)	63,098
Asset write off		-	7,671
Utilisation of provision	19	(25,195)	(4,835)
Operating cashflows before movement in working capital		2,905,895	573,092
Decrease/(increase) in trade and other receivables		148,495	(361,477)
(Decrease)/increase in trade and other payables		(22,755)	351,365
Decrease/(increase) in stock		4,618	(14,539)
(Decrease)/increase in financial assets at fair value through profit and loss		2,464	(31,415)
Cash generated from operations		3,038,717	517,026

*The comparative 2021 results have been represented to update the movements within working capital.

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Notes to the financial statements for the year ended 31 December 2022

28 (b) Net debt reconciliation

Group

	2022	2021
		Restated*
	\$'000	\$'000
Cash and cash equivalents (note 16)	514,862	292,028
Loans and other borrowings (note 18)	(2,222,075)	(1,367,447)
Lease liability (note 14)	(9,208)	(11,436)
Net debt	(1,716,421)	(1,086,855)

	Loans \$'000	Leases \$'000	Sub-Total \$'000	Cash and cash equivalents \$'000	Total \$'000
Net debt at 1 January 2021	(317,192)	(2,562)	(319,754)	73,601	(246,153)
Repayment of loans and leases	68,889	435	69,324	-	69,324
Business combinations*	(256,207)	(801)	(257,008)	12,025	(244,983)
Repayment of acquired loan*	256,207	-	256,207	-	256,207
Net increase in cash*	-	-	-	206,402	206,402
New leases (note 14)*	-	(8,508)	(8,508)	-	(8,508)
Drawdown of loan facility	(1,154,697)	-	(1,154,697)	-	(1,154,697)
Interest expense*	(20,838)	-	(20,838)	-	(20,838)
Interest and facility fees paid (presented as operating cash flows)*	56,391	-	56,391	-	56,391
Net debt at 31 December 2021	(1,367,447)	(11,436)	(1,378,883)	292,028	(1,086,855)
Repayment of loans and leases	-	2,228	2,228	-	2,228
Business combinations (note 12)	-	-	-	4,031	4,031
Non-current assets acquired (note 12)	-	-	-	82,514	82,514
Net increase in cash	-	-	-	136,289	136,289
Drawdown of loan facility	(846,320)	-	(846,320)	-	(846,320)
Interest expense	(135,836)	-	(135,836)	-	(135,836)
Interest and facility fees paid (presented as operating cash flows)	127,528	-	127,528	-	127,528
Net debt at 31 December 2022	(2,222,075)	(9,208)	(2,231,283)	514,862	(1,716,421)

*The comparative 2021 disclosure has been represented to agree to the balance sheet and to correctly allocate the effects of the business combination.

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

29 Related parties - Company

The outstanding balances at 31 December 2022 and 31 December 2021 were as follows:

Company Name	2022 \$'000	2021 \$'000
NEO Energy Upstream UK Limited	7,190	286,693
NEO Energy SNS Limited	-	40,903
NEO Energy CNS Limited	-	2
NEO Energy Production Limited	-	4
NEO Energy Exploration Limited	-	28
NEO Energy Enterprises Limited	-	1
NEO Energy (North Sea) Limited	-	(2,214)
NEO Energy Production UK Limited	-	95
NEO Energy (UKCS) Limited	-	58
NEO Energy Holding Limited	-	(27)
Total	7,190	325,543

At 31 December 2022, the balance of \$7.2 million (2021: \$286.7 million) was due from NEO Energy Upstream UK Limited, an immediate subsidiary Company, which is in respect of funds advanced to allow the subsidiary to fund investment activities.

Group and Company – transactions with immediate parent Company NEO Energy Holding Limited

The shares issued on 12 July 2021, comprising 12,582,071 common shares of £0.000298 each and 249,045,969 preference shares of £0.000031 each, were issued at \$2.17 for the common shares and \$1 per share for the preference shares and purchased by NEO Energy Holding Limited (note 27).

On 26 November 2021, NEO Energy Holding Limited made a payment on behalf of NEO Energy Upstream UK Limited the deposit of \$39.0 million for the acquisition of JX Nippon Exploration and Production (U.K.) Limited which completed on 29 March 2022. This was repaid in the period.

Group and Company – transactions with immediate parent Company and key management personnel

The shares issued on 12 July 2021, comprising 202,916 common shares of £0.000298 each and 644,830 preference shares of £0.000031 each, were issued at \$2.17 for the common shares and \$1 per share for the preference shares and purchased by key management personnel.

Remuneration of key management personnel (including directors)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Directors of the Group. Some directors received remuneration in respect of their services to the Group during the year (note 8).

Key management personnel comprises the directors and leadership team who received total remuneration of \$5.4 million (2021: \$5.1 million) during the year. It comprises compensation for loss of office \$nil (2021: \$0.4 million) and short-term employee benefits \$4.4 million (2021: \$4.3 million).

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

30 Licence portfolio

The Group held interests in 59 licences on the UK continental shelf as at 31 December 2022, as follows:

Licence	Block	Operator	Interest	Asset
P011	29/10a, 30/6a	Shell	50.00%	Joelle
P012	29/3c, 29/8a, 29/3a	Shell	72.00%	Fram, Starling
P012	22/30a	Shell	46.67%	Merganser
P012	22/30a	Shell	35.00%	Merganser
P012	22/30a	Shell	50.00%	Scoter
P013	21/25b, 21/30b, 21/30d, 22/21a, 22/21b, 22/26a	Shell	50.00%	Gannet Cluster
P059	22/20a, 22/20d, 23/16a	BP	12.65%	Mungo & Monan
P084	22/6a	Apache	2.86%	Forties
P084	22/6a	NEO	100.00%	Forties
P090	9/15a	NEO	100.00%	Boa
P108	16/3a, 16/7a*	Taqa	6.30%	Brae, Brae East
P111	22/25a*	TotalEnergies	18.01%	Culzean
P118	21/3a*	Harbour Energy	37.50%	Leverett
P188	22/30b	TotalEnergies	4.38%	Elgin-Franklin
P188	22/30b	Shell	44.50%	Shearwater
P201	211/22c	Ithaca	35.50%	Causeway
P201	211/22a	Taqa	40.00%	Cormorant East
P213	16/26a	Ithaca	17.00%	Alba
P213	16/26a	Ithaca	12.05%	Britannia
P218	15/21a	CNOOC	10.83%	Scott, Telford
P233	15/25a*	Harbour Energy	12.00%	Nicol
P233	22/23b	Shell	50.00%	Madoes
P240	16/22a*	Repsol	21.92%	Burghley
P255	30/19a	NEO	100.00%	Affleck
P255	22/6c, 22/6s	Apache	20.00%	Bacchus
P255	22/6s	Shell	50.00%	Nelson
P255	22/6s	Apache	20.00%	North of Nelson
P295	16/8a	Shell	50.00%	Kingfisher
P296	211/13a, 211/14a	Shell	50.00%	Penguins
P300	14/26a	CNOOC	31.56%	Golden Eagle
P313	16/3b	Taqa	4.00%	Brae East
P313	16/3c*	Taqa	5.41%	Braemar
P324	14/20b	Repsol	50.00%	Duart
P335	9/11a*	Equinor	20.00%	Mariner
P340	16/7b	Taqa	10.50%	Brae
P340	16/7c*	Taqa	6.30%	Brae

NEO Energy Group Limited

Notes to the financial statements for the year ended 31 December 2022

Licence	Block	Operator	Interest	Asset
P345	16/27b	Ithaca	24.76%	Britannia
P362	29/5b	TotalEnergies	4.38%	Elgin-Franklin
P456	48/2a	NEO	60.00%	Babbage
P472	210/24a	Dana Petroleum	23.08%	Western Isles
P598	22/25b	Shell	50.00%	Mirren
P631	9/15b	NEO	100.00%	Boa
P666	22/30c, 29/5c	TotalEnergies	4.38%	Elgin-Franklin
P726	9/11b*	Equinor	20.00%	Mariner East
P735	15/20b	NEO	100.00%	GPIII
P741	21/3b*	Harbour Energy	50.00%	Leverett
P886	22/28d	Shell	50.00%	Madoes
P928	20/1a	CNOOC	31.56%	Golden Eagle
P979	9/11c*	Equinor	20.00%	Mariner
P1041	15/20a	NEO	100.00%	GPIII
P1117	29/2b	Shell	50.00%	West of Starling
P1293	14/18b	Ithaca	15.00%	Athena
P1383	211/23d	Ithaca	35.50%	Causeway
P1464	15/20c	NEO	100.00%	GPIII
P1664	29/4c, 29/9c	Shell	50.00%	Fram
P1758	8/15a*	Equinor	20.00%	Cadet
P1807	22/30e	Shell	44.50%	Shearwater
P2013	21/5c, 21/5d	NEO	100.00%	Finlaggan
P2151	9/11g*	Equinor	20.00%	Mariner
P2340	211/8	Shell	50.00%	Penguins
P2349	210/24e	Dana Petroleum	23.08%	Western Isles
P2350	15/29c, 21/3c	NEO	100.00%	Leverett/Greenwell
P2350	21/2d, 21/3d, 21/4c	NEO	50.00%	Leverett/Greenwell
P2390	23/26e, 30/1d*	NEO	45.00%	Isolde
P2452	22/24h	BP	20.00%	Murlach (Skua)
P2495	211/13c	Shell	50.00%	Penguins
P2508	9/11d, 9/12b*	Equinor	20.00%	Bluebeard
P2520	15/24b	NEO	100.00%	Macculloch
P2521	15/23d, 15/24a, 15/25d	NEO	35.00%	Bowmore
P2522	15/28b, 15/29f	NEO	35.00%	Gilderoy
P2523	15/30b, 16/26b	NEO	35.00%	Starweb
P2525	16/27d	NEO	20.00%	Shirley
P2537	22/2b	NEO	25.00%	Fay

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Notes to the financial statements for the year ended 31 December 2022

Licence	Block	<u>Withdrawn licences</u>	Interest	Asset
		Operator		
P2397	30/1e, 30/2e	NEO	45.00%	Courageous
P2400	30/12c, 30/13c, 30/17h, 30/18c	NEO	30.00%	Skerryvore
P2402	30/19c	NEO	30.00%	Ruvaal
P2533	21/20b	NEO	50.00%	Christian
P2535	21/24d	Hibiscus Petroleum	30.00%	Teal West

*Acquired during 2022. In addition to Leverett licences (P118 and P747) and Isolde licence P2390, on 30 March 2022, the Group completed the acquisition of 100% of share capital of JX Nippon Exploration and Production (U.K.) Limited with primary licence interests in the Culzean field the Mariner field (note 12).

31 Capital commitments

At 31 December 2022, the Group had commitments for future capital expenditure amounting to \$502.6 million. The commitments relate primarily to development projects at Penguin and Affleck, with ongoing drilling operations at Finlaggan, Golden Eagle, and Gannet. Where the commitment relates to a joint arrangement, the amount represents the Group's net share of the commitment. Where the Group is not the operator of the joint arrangement then the amounts are based on the Group's net share of committed future work programmes.

32 Post balance sheet events

On 7 March 2023 the Group repaid \$328.5m of the borrowings drawn under ints RBL facility.

On 28 March 2023, the Board approved a dividend payment of \$100 million.

33 Ultimate parent undertaking

As at 31 December 2022 and 31 December 2021 the immediate parent undertaking is NEO Energy Holding Limited, a Company registered in England and Wales.

NEO Energy Group Limited is the smallest and the largest group to consolidate these financial statements.

As at 31 December 2022 and 31 December 2021, the ultimate parent undertaking and controlling party is HitecVision VI, LP, a Private Equity Fund based in Guernsey. HitecVision VII, LP and HitecVision North Sea Opportunity Fund, LP also hold a non-controlling interests in the Group.