NEO Energy (North Sea) Limited

Report and Financial Statements

For the year ended 31 December 2020

Registered number: 8649342

NEO Energy (North Sea) Limited

Report and Financial Statements
For the year ended 31 December 2020

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NEO Energy (North Sea) Limited

Directors and Advisers

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The Capitol, 431 Union Street
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AB11 6DA

NEO Energy (North Sea) Limited

Strategic Report

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

Principal activities

The Company is involved in the exploration and production of offshore oil and gas prospects in the UK North Sea. The Company is a 100% subsidiary of NEO Energy Group Limited and is part of the wider NEO Group ("NEO" or "the Group"), headed by NEO Energy Group Limited.

Business review

The Company results for the year are shown in the Statement of Comprehensive Income on page 9. The profit for the financial year was $4.2 million (2019: loss $21,000) and is wholly due to deferred consideration recorded from the sale of the Vulcan asset to Independent Oil and Gas plc ("IOG") in 2016. A contingent payment of £1.8 million ($2.2 million USD equivalent) was received during the year on Field Development Plan approval of the Vulcan asset redevelopment and £1.5 million ($2.0 million USD equivalent) final contingent payment on first hydrocarbon production is expected to be received during 2021 based on the latest schedule published by IOG.

Key performance indicators

The NEO Group manages its operations centrally on an area basis. For this reason, the Company's directors believe that further key performance indicators for the Company, other than the profit/(loss) for the financial year as detailed in the business review section above, are not necessary or appropriate for an understanding of the development, performance or position of the business. The key performance indicators of the group are discussed in the Group's financial statements and do not form part of this report.

Outlook for 2021

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

Decision making and stakeholder engagement

The Company's success depends on the ability to engage effectively with stakeholders. The Company's Board considers, both individually and collectively, that they have acted in good faith, taking actions to promote the success of the Company for the benefit of its members as a whole, having regard to matters set out in section 172 (1) (a) to (f) of the Companies Act in the decisions taken during the financial year ending 31 December 2020.

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

Performance

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

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

Governance

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

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

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

In May 2021, NEO released its Low Carbon Transition Plan which outlines two key ambitions; firstly, reduce the carbon intensity per barrel of oil equivalent produced by the portfolio by 50% by 2030 and secondly to be Net Zero by 2050. NEO will achieve this by collaborating with partners and industry associations to explore alternative power solutions, including full or partial electrification, and technology development.

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

Principal risks and uncertainties

Operational

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

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

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

Commodity price and currency risk

The Company is exposed to fluctuations in oil and gas prices and currency movements affecting its near term cash flows from production, the long term return from investments and also the level of borrowing available under the Group's Reserves-Based Lending Facilities. The Company makes long term investment decisions with a great degree of uncertainty over the price it will achieve for the sale of its oil or gas. Investment decisions are only undertaken following a rigorous review of project economics. These reviews will take into account a range of commodity price scenarios.

The Company's immediate parent undertakes hedging activities from time to time using derivative transactions to mitigate its exposure to fluctuations in oil and gas prices and foreign exchange rates on its behalf, in accordance with a Board-approved Hedging Policy and also to adhere to minimum hedging levels required by Reserves-Based Lending Facilities. Hedges to mitigate exposure to fluctuations in oil and gas prices will typically cover a proportion of anticipated production over periods of up to three years, with declining percentages of cover for each successive future period.

Credit risk

The only major credit risk and uncertainties facing the Company is on the outstanding contingent payment of £1.5 million which is receivable from IOG. The Company and the Group have credit risk management procedures in place to monitor the financial position of debtors on an ongoing basis.

Approved and signed on behalf of the Board.

DocuSigned by:
Robert Adams
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Robert Adams
Director
30 July 2021

NEO Energy (North Sea) Limited

Directors' Report

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

Dividends

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

Company funding and going concern

The Company is part of the NEO Energy Group Limited (the "Group") and has net current liabilities of $1.5 million as at 31 December 2020 (2019: $5.7 million), which includes net intercompany loans of $3.5 million (2019: $5.7 million) due to NEO Group subsidiaries. As such it is reliant on continued financial support from the Group. The Directors have received a letter of support confirming that the Group will provide or procure sufficient funds as necessary to allow the Company to continue its operations for at least 12 months after these financial statements are signed.

In preparation of the financial statements, the Directors have made an assessment of the Company and the Group to continue as a going concern. The Company and the Group closely monitors and manages its liquidity risk by producing cash forecasts to ensure that it has sufficient funds to meet forecast cash requirements. Sensitivities are run for different scenarios including, but not limited to, changes in commodity prices and production rates. The Company's and the Group's going concern assessment covered the period to October 2022. A severe but plausible downside scenario that included a reduction to future planned production rates and a future commodity price downside scenario of $60/bbl oil price and £0.42 per therm gas price for the remainder of 2021 and $47/bbl oil price and £0.27 per therm gas price for 2022 was included in the going concern assessment.

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

The Directors of the Group have also received confirmation that HitecVision intends to continue to provide financial support to the Group for at least one year following the date of approval of these financial statements, and have no reason to believe that material uncertainty exists that may cast doubt about the Group and the Company's ability to continue as a going concern or its ability to continue with the current and planned banking arrangements.

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

Financial risk management

The Company's operations expose it to financial risks, including credit risk on the recovery of the final contingent receivable. The Company has a risk management strategy in place which includes regular monitoring of financial risk exposure and undertaking activities when appropriate (see Strategic Report).

Directors

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

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

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

NEO Energy (North Sea) Limited

Independent auditors and disclosure of information to auditors

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

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

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

Statement of Directors' Responsibilities

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

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

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

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

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

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

Directors' confirmations

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

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

Approved and signed on behalf of the Board.

DocuSigned by:

Robert Adams

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Robert Adams
Director
30 July 2021

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2020; the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Bruce Collins

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

NEO Energy (North Sea) Limited

Statement of Comprehensive Income
Year ended 31 December 2020

	Note	2020 $'000	2019 $'000
Administrative expenses		**7**	(21)
Gain on disposal	5	**4,208**	-
Profit / (loss) before taxation		**4,215**	(21)
Tax on profit / (loss)	7	-	-
Profit / (loss) and total comprehensive income / (expense) for the financial year		**4,215**	(21)
Attributable to:			
Owners of the parent		**4,215**	(21)

NEO Energy (North Sea) Limited

Statement of Changes in Equity
Year ended 31 December 2020

	Share capital	Share premium	(Accumulated losses) / retained earnings	Total equity
	$'000	$'000	$'000	$'000
Balance at 1 January 2019	**24**	**35,458**	**(41,158)**	**(5,676)**
Loss and total comprehensive expense for the financial year	-	-	(21)	(21)
Balance at 31 December 2019	**24**	**35,458**	**(41,179)**	**(5,697)**
Profit and total comprehensive income for the financial year	-	-	4,215	4,215
Balance at 31 December 2020	**24**	**35,458**	**(36,964)**	**(1,482)**

NEO Energy (North Sea) Limited

Statement of Financial Position
As at 31 December 2020

	Notes	2020 $'000	2019 $'000
Current assets			
Trade and other receivables	8	**4,753**	**545**
Total assets		**4,753**	**545**
Current liabilities			
Trade and other payables	9	**(6,235)**	**(6,242)**
Net current liabilities		**(1,482)**	**(5,697)**
Net liabilities		**(1,482)**	**(5,697)**
Equity			
Called up share capital	10	**24**	**24**
Share premium		**35,458**	**35,458**
Accumulated losses		**(36,964)**	**(41,179)**
Total equity		**(1,482)**	**(5,697)**

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

Signed on behalf of the Board of Directors.

DocuSigned by:

Robert Adams

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Robert Adams
Director

Registered no. 8649342

1 General information

NEO Energy (North Sea) Limited is a Private Company, limited by shares and incorporated and domiciled in the United Kingdom under the Companies Act 2006. The Company is registered in England.

The financial statements are presented in US Dollar ($), which is the functional currency of the Company, because that is the currency of the primary economic environment in which the Company operates. All values are rounded to the nearest thousand except when otherwise indicated.

2 Basis of preparation

The Company is a qualifying entity for the purposes of FRS 101. These financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006.

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

The Company has taken advantage of the following disclosure exemptions under FRS 101:
– IFRS 7, 'Financial Instruments: Disclosures'
– Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
(i) Paragraph 79(a)(iv) of IAS 1 'Presentation of financial statements';
(ii) Paragraph 73(e) of IAS 16 'Property, plant and equipment';
– The following paragraphs of IAS 1, 'Presentation of financial statements':
– 10(f) (a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements);
– 16 (statement of compliance with all IFRS);

- 38A (requirement for minimum of two primary statements);
- 38B-D (additional comparative information);
- 111 (cash flow statement information); and
- 134-136 (capital management disclosures)

– IAS 7, 'Statement of cash flows'
– Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
– The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more wholly owned members of a Group.
– 101p8(i) & Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).

Going concern

The Company is part of the NEO Energy Group Limited (the "Group") and has net current liabilities of $1.5 million as at 31 December 2020 (2019: $5.7 million), which includes net intercompany loans of $3.5 million (2019: $5.7 million) due to NEO Group subsidiaries. As such it is reliant on continued financial support from the Group. The Directors have received a letter of support confirming that the Group will provide or procure sufficient funds as necessary to allow the Company to continue its operations for at least 12 months after these financial statements are signed.

In preparation of the financial statements, the Directors have made an assessment of the Company and the Group to continue as a going concern. The Company and the Group closely monitors and manages its liquidity risk by producing cash forecasts to ensure that it has sufficient funds to meet forecast cash requirements. Sensitivities are run for different scenarios including, but not limited to, changes in commodity prices and production rates. The Company's and the Group's going concern assessment covered the period to October 2022. A severe but plausible downside scenario that included a reduction to future planned production rates and a future commodity price downside scenario of $60/bbl oil price and £0.42 per therm gas price for the remainder of 2021 and $47/bbl oil price and £0.27 per therm gas price for 2022 was included in the going concern assessment.

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

The Directors of the Group have also received confirmation that HitecVision intends to continue to provide financial support to the Group for at least one year following the date of approval of these financial statements, and have no reason to believe that material uncertainty exists that may cast doubt about the Group and the Company's ability to continue as a going concern or its ability to continue with the current and planned banking arrangements.

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

3 Summary of significant accounting policies

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

Taxation

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

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

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

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

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

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

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

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

Foreign currency

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

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

Transfer within common control

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

Related party disclosures

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

Financial instruments

a) Classification and measurement

Financial assets

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

Classification and subsequent measurement is 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 statement of comprehensive income and at fair value through other comprehensive income.

All the Company's financial assets as at 31 December 2020 satisfy the conditions for classification at amortised cost under IFRS 9 except derivative financial instruments which are measured at fair value through profit or loss.

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

Financial liabilities

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

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

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

b) Impairment of financial assets

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

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

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

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

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

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

Financial liabilities

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

c) Modification

When the contractual cash flows of a financial instrument are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial instrument, the Company recalculates the gross carrying amount of the financial instrument and recognises a modification gain or loss immediately within finance income/costs-net at the date of the modification.

The gross carrying amount of the financial instrument is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial instrument's original effective interest rate.

d) Offsetting of financial assets and financial liabilities

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

e) Derivatives

The Group uses derivative financial instruments such as forward exchange contracts to hedge its foreign exchange risks as well as put options to hedge against its oil price risk. However, such contracts are not accounted for as designated hedges. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value at the end of each reporting period. Any gains or losses arising from changes in the fair value of derivatives are recognised within other operating gains / losses for the period. When a hedging instrument expires, or is sold or terminated, any gains or losses are recognised within other operating gains / losses for the period.

f) Fair value of financial instruments

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

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

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

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 statement of comprehensive income on initial recognition of the instrument. In other cases, the difference is not recognised in the statement of comprehensive income immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Share capital, other equity instruments and reserves

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

4 Critical accounting judgements and key sources of estimation uncertainty

Critical estimates and judgements in applying the Company's accounting policies
The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and

expenses during the 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 only critical accounting judgement that could result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is the recoverability of the final deferred consideration from Independent Oil and Gas plc ("IOG") of £1.5 million which is due on first hydrocarbon production from the Vulcan asset redevelopment. Although this is a judgement, it is not considered significant as management's view is that it is virtually certain that first gas will be achieved since the development is ongoing in accordance with the Field Development Plan and commissioning is expected during 2021.

Classification of preference shares – Critical judgement

The Company has determined that the preference shares as detailed in Note 10 do not contain features that cause the instrument not to meet the definition of an equity instrument. 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 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.

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

5 Operating profit / (loss)

	2020	2019
	$'000	$'000
Operating profit/(loss) is stated after charging/(crediting):		
Gain on disposal	**(4,208)**	-
Audit of financial statements	**9**	5

Gain on disposal of $4.2 million (2019: nil) represents deferred consideration from the sale of the Vulcan asset to IOG in 2016. A contingent payment of £1.75 million ($2.2 million equivalent) was received during the year on Field Development Plan approval of the Vulcan asset redevelopment and £1.5 million ($2 million equivalent) final contingent payment, due on first gas, is expected to be received during 2021 based on the latest schedule published by IOG (Note 8).

6 Employee numbers and directors' remuneration

During the year the Company had no employees (2019: nil).

Some of the directors of the Company are also directors of the holding Companies and fellow subsidiaries. The directors were paid by another Group Company. The directors do not believe that it is practicable to apportion this amount between their services as directors of this Company and their services as directors of the holding Companies in which the remuneration has been disclosed.

7 Tax on profit / (loss)

	2020 $ 000	2019 $ 000
Current tax:		
UK Corporation tax	-	-
Total current tax	-	-
Deferred tax	-	-
Total tax charge	-	-

Factors affecting total tax charge for the year

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

	2020 $ 000	2019 $ 000
Profit/(loss) before taxation	**4,215**	(21)
Tax on profit/(loss) at standard UK tax rate of 19% (2019: 19%)	**801**	(4)
Effects of:		
Non-deductible or non-taxable items	**(800)**	-
Amounts not recognised	-	4
Unused tax losses	**(1)**	-
Total tax charge	-	-

The company has gross tax losses which are available indefinitely for offset against future taxable profits and which exceed other temporary differences by $1.0 million (2019: $1.0 million). Deferred tax assets have not been recognised in respect of these losses due to the uncertainty of the availability of suitable future profits from which they can be deducted.

8 Trade and other receivables

	2020 $'000	2019 $'000
Amounts due from group undertakings	**2,717**	545
Contingent receipt	**2,036**	-
	4,753	545

Amounts due from group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Management considered the expected credit loss on amounts due from group undertakings at 31 December 2020 of $2.7 million (2019: 0.5 million) in line with IFRS 9 'Financial Instruments'. The expected credit loss calculated was almost zero and therefore no adjustment has been applied.

The Company have a deferred consideration of £1.5 million, ($2.0 million equivalent) due from IOG on first gas from the Vulcan field redevelopment. The redevelopment received Field Development Approval in 2020 and the development is ongoing and currently expected to be commissioned during 2021, it is considered that payment of the consideration is now virtually certain and therefore the receipt is recorded in trade and other receivables in line with IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets'.

NEO Energy (North Sea) Limited

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

9 Trade and other payables

	2020	2019
	$'000	$'000
Amounts due to group undertakings	6,232	6,232
Accruals	3	10
	6,235	6,242

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

10 Called up share capital

Number	2020	2019
Authorised, allotted, called up and fully paid		
Ordinary shares of £0.10 each	80,000	80,000
Ordinary shares of £0.20 each	20,000	20,000
Preference shares of £0.001 each	3,473,750	3,473,750

Value	2020	2019
	$ 000	$ 000
Authorised, allotted, called up and fully paid		
Ordinary shares of £0.10 each	13	13
Ordinary shares of £0.20 each	5	5
Preference shares of £0.001 each	6	6

NEO Energy Group Limited controls the Company and owns all Ordinary shares and all Preference shares which have been issued by the Company.

11 Ultimate parent undertaking

As at 31 December 2020, the immediate parent company was NEO Energy Group Limited.

As at 31 December 2020, NEO Energy Group Limited is the largest Group to consolidate these financial statements. The consolidated financial statements for NEO Energy Group Limited can be obtained from Companies House, 4th Floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, EH3 9FF.

As at 31 December 2020, the ultimate parent undertaking and controlling party is HitecVision VI, LP, a Private Equity Fund based in Guernsey. HitecVision VII, LP also holds a non-controlling interest in the Group.